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Canada. Royal commission on taxation.
Hearings. v. 5-8, 8 (suppl.), 1963.

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3 ROYAL COMMISSION OF TAXATION

4 Hearing held in Room 404,
5 McConnell Engineering Building,
6 McGill University, Montreal,
7 Quebec, the 22nd day of April,
8 1963.

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S. M. MILNE

15 MR. CHARLES E. S. WALLS

16
17
18 LEGAL ADVISER:

19 MR. J. L. STEWART, Q.C.

20
21 RESEARCH DIRECTOR:

22 PROF. D. G. HARTLE

23
24 SECRETARY:

25 MR. G. L. BENNETT
26
27
28
29
30



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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF MONTREAL, QUEBEC

April 21, 1938

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VOLUME No. 5

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Montreal, April 22, 1969

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1 ---ON RESUMING AT 9:30 a.m.

2
3 THE CHAIRMAN: Even though it is a little
4 bit before the hour, it seems to me we might get
5 going.

6 I might say it is a nice experience to be in
7 a McGill classroom again; it never used to look like
8 this.

9 Mr. Secretary, there is no business other
10 than the hearing this morning?

11 THE SECRETARY: No, sir. This morning
12 we have two participants appearing. The first is the
13 brief on behalf of the Joint Stock Insurance Companies,
14 general members of the Canadian Underwriters'
15 Association, and this brief is being presented by
16 Mr. A. Leslie Ham, Q.C., who is counsel for the
17 Canadian Underwriters' Association.

18 Mr. Ham is here and will speak to the brief,
19 which I now enter into the record as Exhibit No. 10.

20 EXHIBIT NO. 10: Brief of Joint
21 Stock Insurance
22 Companies,
23 general members of
24 the Canadian
25 Underwriters'
26 Association.

27 SUBMISSION OF THE
28 JOINT STOCK INSURANCE COMPANIES
29 GENERAL MEMBERS OF THE CANADIAN
30 UNDERWRITERS' ASSOCIATION

31 APPEARANCES:

32 A. Leslie Ham, Q.C., Counsel for the Canadian
Underwriters' Association.



1 THE CHAIRMAN: Thank you, Mr. Secretary.
2 Good morning, Mr. Ham. We enjoyed reading
3 your well-prepared brief. Would you like to speak to
4 it or would you like us to proceed to questions?

5 MR. HAM: Well, I haven't much to add.
6 It perhaps seems presumptuous on my part to extend to
7 you, Mr. Carter, and fellow Commissioners a welcome to
8 the City of Montreal. I think it is presumptuous
9 because I am not a native son but an adopted son of
10 La Belle Province. I think the designation is still apt
11 despite the tragic depredations which some of the
12 citizens have been carrying on.

13 I don't think I will add to my brief. As
14 I view it, it having been decided that mutuals can
15 and do have income subject to tax, Section 74 was put
16 in to try to eliminate, or at least restrict, dis-
17 crimination between insurers of the two schools of
18 insurance operations, namely, joint stock and mutual.

19 It seems to me, however, that this attempt
20 to curtail such discrimination has opened the door to
21 legal tax avoidance that is frequently discriminatory
22 against the great body of insurers, mutual and joint
23 stock alike, who do not make a practice of paying
24 policy dividends.

25 I must confess, Mr. Chairman, that after
26 attending a couple of the opening sessions last week
27 in Ottawa, and sensing the broad brush strokes
28 delineating the scope of economic theory and philosophy
29 involved in your terms of reference, I am somewhat
30 embarrassed that circumstances have determined



1 that I should cast the first stone, perhaps
2 rather a pebble, at the Act, limiting my target to
3 just one section of that very intricate piece of
4 legislation.

5 But I would be very happy to answer any
6 questions that any of the Commission may have to put
7 to me.

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1 THE CHAIRMAN: Thank you for your greeting
2 to Montreal. I am a native son who moved out, and
3 you moved in.

4 We have not chosen or arranged the hearings
5 in any order of subjects, we have taken them pretty
6 much as they come up. It seems to us this is a very
7 satisfactory opening submission, and I am rather glad
8 glad it doesn't deal with the whole range and is,
9 in fact, directed to one subject.

10 Mr. Ham; we have discussed this, and we have
11 a few questions. If you are prepared to deal with these
12 now, we will start off asking questions.

13 MR. HAM: I would be very happy to.

14 COMMISSIONER GRANT: Mr. Ham, may I express
15 my personal pleasure in having you here. You
16 have produced a formidable brief in which you set forth
17 your argument in a very straightforward and logical
18 order. At least it would so appear to me.

19 In our questions you understand that they
20 are not framed to attack your brief but they are framed
21 to bring out as much of the facts as we can, so as to
22 enable us to reach a fair decision or, as you put it in
23 your brief, an equitable decision.

24 On page 3 of your brief you place emphasis
25 on the fact that when one taxpayer is granted an
26 exemption over another it tends to subsidize that tax-
27 payer. Have you, I wonder, any figures available
28 from the Superintendent of Insurance or from any other
29 reliable source that would show the growth which the
30 mutual companies have obtained in the last, say, ten



1 years or in any period that you might have?

2 MR. HAM: I have some figures here of the effect
3 of Section 74, but I haven't any figures to show their
4 growth.

5 I think it is fair to say -- and this is my
6 own opinion -- that the mutual basis was the original
7 basis of insurance.

8 When the concept of joint stock companies
9 arose 200 or 300 years ago they stepped into the field.
10 But we find, for instance, there are in Quebec --
11 and these figures might be interesting to you; I jotted
12 them down from the Quebec Superintendent's report --
13 there are municipal and parish mutuals operating in
14 Quebec of the number of 289. Now, they in my judgment
15 are true mutuals; they are small mutuals and they operate
16 in a certain area and largely on the premium note
17 basis. There are 238 assessment mutuals, making a
18 total competitive number of 527, plus Lloyds
19 Underwriters. But as they expand territorially or
20 class-wise they tend to lose that mutual aspect and
21 stop paying policy dividends. I suppose the labour
22 involved in handling large premium income and issuing
23 policy dividend cheques is one of the reasons. So
24 the larger mutuals operating, and that is apart from
25 what we call the factory mutuals in England, the
26 cash mutuals -- there are a dozen or more -- tend to
27 make a policy of paying policy dividends and they oper-
28 ate the same as a joint stock company, paying a fixed
29 premium. Any adjustment of cost they make from year to
30 year with a fluctuation of the premium rate than as to



1 policy dividends.

2 I could make a survey of that for you if it
3 would be of any assistance.

4 COMMISSIONER GRANT: Well, I was going to
5 ask you a further question which would arise out of that,
6 and that is if you did know the amount of insurance that
7 has been written by the mutuals, whether or not you would
8 be able to say what percentage of that would cover
9 farm properties. Would you wish to give your opinion on
10 that?

11 MR. HAM: No, because all classes of insurers,
12 by and large, joint stock companies, premium mutuals,
13 at least the assessment mutuals, cash mutuals, all write
14 farm business as a cost. But the bigger percentage
15 of it, I would think, would be written by what I would
16 call a farm mutual.

17 COMMISSIONER GRANT: Yes. I suppose it is
18 true that the mutuals really got their start largely
19 in the farm areas?

20 MR. HAM: Yes, that is substantially correct.

21 COMMISSIONER GRANT: And they would have had
22 their start probably because of the fact that the
23 joint stock companies were reluctant to go on those
24 risks at that time.

25 MR. HAM: No, I think the reason they got
26 their start was an attempt to try to get insurance off
27 cost as much as possible and because they operated in a
28 restricted territory, and for one class of business,
29 like fire, they were able to act much more successfully
30 than a company, say, in Montreal.



1 COMMISSIONER GRANT: You make the point
2 on page 7 of your brief that there should be no
3 discrimination as between competing corporations
4 irrespective of the type of corporation or of its
5 objectives.

6 MR. HAM: Yes.

7 COMMISSIONER GRANT: Would you go so far,
8 Mr. Ham, as to say that there was justification up to
9 a point of giving special treatment to the mutuals insofar
10 as their tax operation or their tax liability was
11 concerned?

12 MR. HAM: I wouldn't accept that as a
13 proposition, but I wouldn't complain at some con-
14 sideration. As a matter of fact, there is now in the
15 Act something in respect to mutuals with at least
16 50 per cent of their business emanating from farm
17 properties or fishing properties or something of that
18 kind. I have no particular objection to that, but
19 I don't accept it as a sound proposition.

20 THE CHAIRMAN: Mr. Ham, in discussing this
21 matter of mutuals please presume a pretty high degree
22 of ignorance on the subject of insurance, I would
23 like to be told as much as possible of the operation of
24 mutuals. You are using technical terms with which
25 I am not familiar. When you do, would you please enlarge?

26 MR. HAM: We are getting into the subject of
27 semantics, because the term "mutuals" has been very much
28 distorted. I would submit for your consideration the
29 true mutual, like county or parish, where they operate
30 in a small area, where they appoint somebody to manage it



1 and they take a premium note for an estimated cost and
2 perhaps cash to carry overhead, and as losses occur
3 the policyholders are asked to pay the losses. But,
4 of course, we have the larger mutuals, and this is
5 always apart from the factory mutuals, which is a
6 different matter entirely, but the larger cash
7 mutuals in Canada and in the United States. The very
8 term "cash mutual" means the business they carry on is
9 the same business as the joint stock company; they
10 fix their rates from year to year and they don't
11 generally pay back policy dividends. So it is a self-
12 perpetuating management; it is represented by a
13 fluctuating membership as people become policyholders.
14 As a matter of fact, the factory mutuals direct their
15 attention largely to large manufacturing risks; and
16 they have another method, they charge a very substantial
17 premium that is held as a deposit.

18 THE CHAIRMAN: Do reciprocals come into that?

19 MR. HAM: They operate largely the same
20 as mutuals except that there is no cooperation involved
21 in the reciprocals; there is a simple place of doing
22 business, that is all.

23 COMMISSIONER GRANT: Mr. Ham, the Royal
24 Commission on Co-Operatives did, of course, go into this
25 subject at that time quite thoroughly, I suppose. You
26 are very familiar with that.

27 MR. HAM: Yes, I represented the companies at
28 that time.

29 COMMISSIONER GRANT: Would it be true to say
30 that it was generally accepted by all in the insurance



1 fraternity that policy dividends were an acceptable form
2 of mutual operation?

3 MR. HAM: Oh, yes. Actually there are
4 joint stock companies that pay policy dividends, too.
5 That is not an issue as to whether they should be
6 deductible as expense. There is no restriction; that is,
7 they could include, as they do now, in policy dividends
8 what is considered as income in place of investment,
9 income, savings they can make. The case I cite here
10 is not a mutual company at all, it is a joint stock
11 company, taking advantage of the policy dividend.
12 It is a joint stock company and not a mutual.

13 COMMISSIONER GRANT: On page 9 of your
14 brief, in the concluding paragraph there, it says:

15 " It is submitted that the distribution
16 of the corporate income to owners of the
17 corporation is not in fact: A. 'Price rebate'
18 or 'discount'."

19 Would a refund of premium be regarded as a
20 price rebate?

21 MR. HAM: Well, my own conclusion is that
22 the Macdougall Commission, in trying to find a method
23 to eliminate the discrimination with regard to
24 the mutual being free of taxation on the ground that
25 they didn't have income -- that was the basis
26 of (g) in the Income War Tax Act. It didn't let
27 them out, but it purported to let them out, and
28 they didn't pay tax, and I think the Macdougall Commission
29 found it was discriminatory. They felt that they could
30 not prohibit entirely the policy dividends. They said



1 well, both joint stock and mutuals can pay dividends,
2 and if they do they are taxable expense.

3 My own view is that that has created a
4 discrimination, as long as we have double taxation in
5 the hands of a corporation and in the hands of owners,
6 because by their definition, the policyholder of a
7 mutual is one of the owners of it.

8 COMMISSIONER GRANT: Yes, they, I believe,
9 felt it was impossible to regard a refund of premium
10 as a profit in the hands of the insurer.

11 MR. HAM: I don't know that they found that.
12 They used that assumption, but I don't know that they
13 found it as a fact.

14 COMMISSIONER GRANT: That income resulting
15 from investment or operating gains would be taxable
16 income.

17 MR. HAM: Unless they take it out of policy
18 dividends. They said you do have income.

19 COMMISSIONER GRANT: Their test probably
20 seemed to be centred around the fact of what claim
21 the policyholders had on this / ^{surplus before determining} what would be regarded
22 as profit.

23 MR. HAM: Yes, and they said that if you pay
24 it out it has got to be dividend, and it was to that
25 proposition I object.

26 COMMISSIONER GRANT: But they reached the
27 conclusion, as I understand it, that income which was
28 free from claims of policyholders would be subject to tax.

29 MR. HAM: That is right. But, you see,
30 they don't even go so far as saying it has to be paid out,



1 that they actually have to make a return; they
2 discriminate against the policyholder on the ground that
3 it doesn't even have to pass to him.

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1 MR. GRANT: There are some arguments put
2 forward by supporters of the mutual that their economy
3 of operation plays a material part in their ability
4 to reduce their premiums.

5 MR. HAM: Well, once you get away from a
6 non-assessable policy, and it is the fact that in the
7 original mutuals the policies were assessable, and
8 individual organizations didn't want to know for certain
9 that they had protection from an insurer, and not a
10 possibility of a liability to them if the loss
11 experienced was bad. Once the mutuals got in a
12 position where he will have non-assessable policies,
13 then I think he is crossing the line from being a true
14 mutual, and carrying on a business with the object of
15 gain.

16 Now, the fact is that we compete. Joint
17 stock companies compete with these mutuals at
18 comparable prices, on this risk, some larger, and vice
19 versa, but the joint stock companies write the larger
20 volume of the business in Canada, and they do it on a
21 competitive basis, whether it is the factory mutuals
22 or the parish mutuals.

23 THE CHAIRMAN: Mr. Grant, I don't understand
24 the words unassessable policies. Could I have a
25 definition of unassessable policies?

26 COMMISSIONER PERRY: Is it un or non?

27 MR. HAM: Non-assessable policies. You see,
28 in these parish mutuals you give a premium note, and
29 you are assessable up to that amount, and in the
30 factory mutuals you pay a deposit premium and you agree



1 to be liable for four, five, eight or ten times the
2 premium if you are called on, but the parish mutuals write
3 a non-assessable policy on the same basis. The only
4 thing mutual about them actually is in their name,
5 and the fact that the company is owned by the people
6 that have the policies, as they may be at any particular
7 time. It changes from day to day, as people become
8 insured and stop being insured, so the only thing
9 constant is the management.

10 MR. GRANT: You mention that the joint stock
11 companies are now competing with the mutuals on risks
12 wherever they may be, in country properties or in city
13 properties, or wherever the risk may be. Is that a
14 relatively new development?

15 MR. HAM: Oh, no, they always have competed.
16 All the joint stock companies are represented in the
17 small agencies, at Smither's Corners, or some place or
18 another, and compete with the local mutual there.

19 COMMISSIONER GRANT: Well then, perhaps the
20 trend would be something to the effect that the joint
21 stock companies are covering more rural risks than they
22 used to, and the mutuals in turn are covering more urban
23 risks than they used to?.

24 MR. HAM: I wouldn't want to make a statement
25 on that, because I have not any idea really of the
26 fluctuations in business, because it depends on so many
27 factors. For instance, if in an area the big bulk of
28 the business is written by a local mutual, and for some
29 reason or other, just mischance, it began to have a
30 rather bad experience, they will go over their policy



B-3 1 list and cancel the least moral hazard ones they have
2 got, the ones they don't want, and that flows back into
3 the market, and somebody else picks it up.

4 I don't think there is any definite trend over
5 the whole of the country, one way or the other. It
6 ebbs and flows.

7 COMMISSIONER MILNE: Mr. Ham, in speaking to
8 Mr. Grant some of the questions that I had thought to
9 ask you have fairly well been covered, and I know that
10 certainly statistical comparisons sometimes are quite
11 tedious, and I hope you won't mind if I ask you another
12 one that possibly might be useful to us.

13 That was the relative loss of tax revenue
14 you think might appear, comparing mutuals with the other
15 types of insurance? Could you indicate something
16 there?

17 MR. HAM: Well Mrs. Milne, I have sort of
18 in the brief talked mutual and joint stock because of
19 the long battle we had before the Macdougall Commission
20 to get acceptance of the principle, and I didn't know
21 who was coming after me, and I wanted at least to have
22 some ground there that we didn't change. But my
23 real complaint at the moment is not so much mutual versus
24 joint stock, as the fact that both of them can deduct
25 policy dividends as expense at the cost of the
26 consolidated revenue. If you accept double taxation
27 in theory -- I don't, but I have to put up with it --
28 if you accept it in theory, then I think the present
29 permission to deduct policy dividends is expensive.
30 It aborts that theory, as I think the figures I submitted



B-4

1 show, and if it would be of any interest to the
2 Commission, I have extra copies of the figures with
3 which I worked. It is very difficult to draw
4 comparisons, but I started out with these business from
5 1952 to 1962. I said, now, the pool insurance
6 company is a joint stock company, and therefore
7 apparently in business with the object of making an
8 underwriting gain. So, in each of those years, I
9 took the Canadian company, and I had to limit it to
10 Canadian companies. I might have got a closer
11 comparison if I used British and foreign companies, but
12 they are taxed somewhat differently and it would become
13 quite complicated. So I took the Canadian companies,
14 and picked the one that had the nearest underwriting
15 gain, that is, most closely achieved the objective that
16 the pool had in that year. Then I set up what they
17 paid in taxes as against the capital employed in the
18 venture, as against the underwriting gain, and against
19 the net gain before stock and policy dividends and
20 income tax, that is, before they started to make any
21 division of the profit of the year. Those figures
22 show that the pool insurance company, the joint stock
23 company, got away with very nominal payments under those
24 comparisons. In one case it even went so far in 1960
25 that whereas the pool paid in income tax 1.36 of its
26 paid up capital employed, the Guardian of Canada paid
27 out 92.83 of its capital employed, as against 1.36.

28 In that year the pool paid out .66 of its
29 underwriting. Guardian of Canada paid out 67.24, and
30 as of net income, other than before policy and stock



B-5 1 dividends and income tax payments, the pool paid out
2 .53, and the Guardian of Canada paid out 35.87.

3 Now, the only example I cite is the pool.
4 I have not looked to see how many other companies are
5 doing it, but if one can do it, and they are doing it
6 quite legally under the Section in my judgment, then it
7 is open to other people to do it.

8 THE CHAIRMAN: I would have thought, Mr. Ham,
9 that to compare the pool companies with the stock
10 companies was not an altogether happy comparison, but
11 I suspect that the pool companies are doing business
12 with the grain pools, rather than competing in the
13 ordinary market. Am I right there?

14 MR. HAM: Broadly speaking, I think Mr. Carter
15 the grain trade is divided into two. The pool
16 operation and the private grain operation. Rather
17 interestingly, they both form joint stock companies to
18 handle their pool requirements, and in this set of
19 figures those two companies come together in 1952, 1954,
20 1956 and 1958 -- that was just sheer chance, that their
21 underwriting gains were about the same, and the story
22 is the same there. Now, here are two companies,
23 owned by the same kind of interests, operating in exactly
24 the same field, the one taking advantage of legal
25 permission under Section 74 to pay out its policy
26 dividends, and the other one not doing so, and paying
27 substantial sums into the consolidated revenue. In 1952
28 the federal tax to paid up capital for the pool was
29 1.02 for the grain insurance, and carrying out 38.21
30 as the underwriting gain, and the pool was .57 grain



B-6

1 insurance, carrying out 65.87 of its underwriting
2 gain in income tax. The federal tax for this grain
3 ex stock and pool dividends, the pool paid out .56, and
4 its competitor in the grain trade paid out 58.42.

5 THE CHAIRMAN: You say competitor. Are these
6 two types of insurance company competing one against the
7 other?

8 MR. HAM: One is writing the pool interest and
9 the other private grain trade interest, but they are
10 writing the same type of risk, line terminal elevators,
11 and so on.

12 COMMISSIONER GRANT: The fact that they have
13 the same type of corporation, I think, is pointed out
14 in the Macdougall Report. They originally started
15 such companies as incorporated under the Manitoba Act,
16 but due to a ruling of the Board of Grain
17 Commissioners they had to be incorporated under the
18 letters patent of the federal government.

19 MR. HAM: Yes, because there were requirements
20 under the Grain Act. They used Dominion-licensed
21 companies as a question of status, whose policies will
22 be accepted without question.

23 COMMISSIONER GRANT: I cite that only as an
24 explanation why they happen to have a joint stock company as a
25 corporation.

26 MR. HAM: That is right.

27 COMMISSIONER MILNE: I have one other question,
28 possibly you will think it is rather a simple question,
29 but it is important to me.

30 If it is impossible to come close to estimating



1 future losses through actuarial computation, would there
2 not appear to be valid reason for considering policy
3 refunds as an adjustment to the actual cost?

4 MR. HAM: Well, I suggest to you that that is
5 exactly what happens. No matter what method of
6 operation, if insurers find that the rates are inadequate
7 in 1963 they raise their rates in 1964. If they find
8 them more than adequate in 1963, and we have got 500
9 organizations writing insurance, we are bound to reduce
10 them the following year. So there is very little
11 difference, I suggest, between saying a policy dividend
12 because of good operation in 1963 and you pay back money
13 which he can use to reduce his cost for 1964, or if you
14 just simply reduce your premium in 1964, it is in
15 essence the same thing. Section 74 recognizes that by
16 saying that it is a policy dividend if it is paid to
17 the policyholder or applied in discharge, in whole or in
18 part, of a liability of the policyholder to pay
19 premiums to the corporation. So if the buyer of
20 insurance gets a reduction in his rate in 1964 because
21 of a good year in 1963, it is like paragraph (b) of
22 Section 74. He is getting a reduction in his cost for
23 the following year so, in essence that is in fact what
24 happens in a very competitive field, where you can't
25 continue to write with a large margin of profit with
26 the number of insurers that there are in this country,
27 and the number that are not even registered here,
28 competing in the country too.

29 THE CHAIRMAN: This leaves me a little
30 unsatisfied as to the principle test that we are trying



1 to achieve here. The circumstances with regard to
2 mutuals are that the customers and the shareholders are
3 the same --

4 MR. HAM: That is right.

5 THE CHAIRMAN: With regard to your stock
6 companies they are two different parties. In the first
7 instance a division of the income as between the
8 customers and the shareholders, where they are the same
9 people, is an artificial division I think. Maybe
10 there are tests that make it better than what I call it,
11 an artificial division.

12 In the second instance, where there are two
13 different groups of people of course, it is a real
14 distinction and the income is a properly determinable
15 amount, and therefore it serves as a good basis for
16 tax.

17 I find the greatest difficulty in seeing
18 a good basis for income tax where the owners and the
19 customers are the same. You indicate that it may be
20 achieved I think because the mutuals are in fact com-
21 peting with the other companies, and as such their
22 revenue is determined in the market-place. Am I
23 correct in that?

24 MR. HAM: Yes, that is right. Insurance
25 operation is not a simple operation, but it does include
26 the collecting in of money from many people, the handling
27 of that money by way of investment, by way of buying re-
28 insurance, and out of those things, efficient
29 management and carrying on the operation economically.
30 Then I feel that when a, b and c decide for their own



1 purposes that they should form a corporation and derive
2 the benefits of the use of that concept in their
3 negotiation of re-insurance, in their handling of those
4 funds, and they make a saving or a profit out of it for
5 the owners, whether the owners be the shareholders or
6 policyholders, that should be subject to normal tax.
7 Of course it is incongruous here that just by sheer
8 circumstances that are set up that the pool insurance
9 company is a joint stock company. It is a perfect
10 identity between owner and patron, and if the law
11 required them to genuflect two times, you are out of tax.
12 If you genuflect three or four, you are in tax. So
13 they genuflect three or four times and pay a policy
14 dividend to the owners instead of a stock dividend. I
15 can't blame them at all as long as the law is that way.

16 THE CHAIRMAN: No, but I am concerned
17 primarily in this question with the difficulty as to
18 measurement when the two groups are the same, because
19 the revenue can be set at any figure one wishes. You
20 can set it either by using policy refunds, or in fact
21 setting your premiums at the equivalent of a figure net
22 of the policy refund.

23 If the two groups are the same, I would have
24 thought that the market test fails, because you are not
25 selling your insurance at arm's length in the same way
26 it would be if you were selling it to people who are not
27 shareholders.

28 MR. HAM: Yes, that is right.

29 COMMISSIONER WALLS: Mr. Ham, there is a
30 question that troubles me just a little, and I think



1 perhaps you can clarify it. We are told that
2 the purpose of the mutual is to do business with its
3 members at cost. Now let's say that your recommendation
4 of increased taxation goes into effect on the refund
5 of dividend or of overpayment to the mutual members,
6 are they not going to turn around and, instead of
7 maintaining the rate that they are charging now,
8 reduce the rate so that they operate at a cost, and
9 thus avoid having to pay tax on the refund, and if they
10 do that are the joint stock companies not going to be
11 at a greater competitive disadvantage than they are
12 today?

13 MR. HAM: I would say yes if the fire insurance
14 business was even as nearly actuarially attainable as the
15 life business, but chance plays such a part in the fire
16 record. We have just apparently unearthed an arson
17 ring of considerable proportions here in Montreal. Now,
18 no underwriter can sit down and guess, with any degree
19 of certainty, certainly with respect to any one risk,
20 and he can only approximate over a large spread of risk.
21 So the mutual wouldn't be able to cut it that fine, to
22 raise a problem for its competitors.

23 COMMISSIONER WALLS: Well, would they then not
24 be able to assess the percentage of refund that they had
25 given over recent years, and then automatically reduce
26 the rates by that amount, and that way they would be
27 staying as actuarially sound as they had ever been?

28 MR. HAM: Well, it depends on how recent.
29 If they went back twenty years they would be taking into
30 consideration the tax that they didn't pay under the



1 Income War Tax Act.

2 No, I don't think that they can guess it that
3 closely. Actually we talk about members and some times
4 the words we use cloud our thinking. I suggest you
5 look at any, the Montreal Transportation bus here, one
6 out of six or seven. It says "Save by buying Wawanesa
7 insurance" so that in any use of the word member,
8 because I walk in and they say they can sell it to me
9 cheaper, I am not really a member of anything. I don't
10 have any filial affection for the corporation, or anyone
11 else. If I succumb to their advertising, I buy it
12 because it is cheaper. Now I am going to be called a
13 member of something, but actually all I am is the
14 purchaser. Wawanesa is a mutual, and the results are
15 less than one per cent for the pool and up in the
16 twenties and thirties for a mutual company.

17 COMMISSIONER WALLS: You have within your
18 joint stock companies ^{others} /companies called board companies,
19 and non-board companies. Now, the mutual
20 companies, do they join in with the non-board companies
21 in arriving at approximate rates?

22 MR. HAM: No, there are really two
23 organizations of underwriters. My own, the Canadian
24 Underwriters Association, and the Independent Insurance
25 Conference. Now, we changed our constitution after
26 this change in the Act following the Macdougall
27 Commission.

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30 ---



RL/bg 1 We were limited to joint stock by our Letters Patent;
2 we would only accept membership in joint stock. We
3 changed that to say we would accept a mutual if it was
4 not dividend-paying mutual. In other words, we could
5 see no difference between a mutual in Windsor, one of
6 these, to the stock paying dividend. There never was
7 that restriction on the Independent Insurance Conference,
8 and there are half a dozen mutuals but they are the cash
9 mutuals that are members of the Independent Insurance
10 Conference.

11 COMMISSIONER WALLS: So in effect, then, the
12 rates have been reasonably uniform between mutual and
13 non-board companies in these two groups.

14 MR. HAM: I think you have to take it that
15 they are, by and large, competitive rates, otherwise they
16 would go out of existence. Big risks, manufacturing
17 and that sort of thing, is not the Canadian joint stock
18 companies operating here outside of our group, it is
19 New England factory mutuals, because they are built up
20 and geared to inspection, and that plays a big part in
21 it. I suppose we have 75 graduate engineers on the
22 staff from coast to coast at least on this inspection
23 work.

24 Now, in any one year in competition we will
25 get from the factory mutuals eight, ten, fifteen, twenty
26 risks and they will take almost the same number back
27 from us, and there won't be any more than four or five
28 in number between what we get from them in one year and
29 what they get from us. So it is highly competitive;
30 we are after their risks and they are after ours. And



1 they switch from time to time. There are some people
2 who won't buy mutual at all; you have other people who
3 are long-supporters of mutuals, and we would never get
4 in there until the president dies or something of that
5 kind.

6 COMMISSIONER GRANT: Mr. Ham, the Macdougall
7 Commission made the observation that mutuals had
8 maintained their position up to that time, 1945, in what
9 was termed a highly specialized field. Now, I judge
10 from what you have been telling us this morning that
11 the mutuals are becoming less highly specialized in
12 their risks and they are spreading more to risks,
13 spreading into the field of the risks of the joint stock
14 companies.

15 MR. HAM: I would think at some point in the
16 development of a farm mutual the Board of Directors has
17 to say they are going to continue to be small, where
18 they know all their buyers in the community, or they
19 are going to get into the big competitive field. It was
20 originally a small Manitoba farm mutual in the parish
21 of Wawanesa. They made the decision that they would
22 step out of it and get into the big competitive field,
23 and they have done it very satisfactorily. Actually
24 they are quite experimental. They operate elsewhere
25 than in Quebec on the recognized agency system, and
26 our companies would be in the same agency offices as
27 the Wawanesa, competing with that agency. I don't
28 know whether it is because the French have difficulty
29 with the word "Wawanesa", but they were not getting very
30 far over the twenty-year period they were operating



1 in this province. Direct writers were starting in the
2 United States, and a local manager, a friend of mine,
3 concluded he was getting nowhere trying to build up a
4 reasonable size of business in the agencies in Quebec,
5 and he sold them the idea that they become direct
6 writers like Allstate. They spent a lot of money on
7 direct advertising, on buses and newspapers, and what not,
8 and he has developed a big sizeable automobile operation
9 here.

10 Still it is very difficult to generalize. You
11 go through these little towns and find the parish
12 mutual with perhaps with 25, 50 or 100 insureds for their
13 home or their barn and household goods, but they don't
14 have a claim in twenty years, and if they do there is an
15 assessment comes along to pick it up. But they run the
16 whole gamut of operation.

17 COMMISSIONER GRANT: I think you offered to
18 find the figures to show the growth of mutuals, and, if
19 you can, would you be able to break it down into such
20 things as farm risks and other risks?

21 MR. HAM: No. The Dominion Superintendent
22 of Insurance calls for quite exhaustive figures from
23 dominion-licensed companies only. Now, fire is the only
24 one where he really breaks it down into, I think, 28
25 classes. There are dwellings, but I don't think it is
26 broken down into farm dwellings and other.

27 COMMISSIONER GRANT: It is not broken down as
28 between rural and urban?

29 MR. HAM: And it is broken down into protective
30 and non-protective risks, fire fighting equipment and



1 water supply.

2 Then the provinces come along and they acquire
3 figures, they collect figures from the dominion-licensed
4 companies operating in the province and their local
5 corporations, mutual and otherwise. So, as I say,
6 in Quebec, there are many parish and farm mutuals. There
7 are more parish and farm mutuals than there are other
8 companies operating in Quebec. There are 289 parish
9 and municipal mutuals; there are only 238 other companies.

10 COMMISSIONER GRANT: In fact, the Macdougall
11 report cited in 1945 there were as many as 320 in the
12 Province of Quebec, and they were representing at that
13 time \$180 million of insurance.

14 MR. HAM: Yes; and that would vary from province
15 to province. I think the number in Ontario might be
16 very much lower, but the volume would be very much
17 higher. There would be fewer of them, but they would
18 be bigger.

19 THE CHAIRMAN: Mr. Ham, I was classifying this
20 in my mind three ways, and that is a pure mutual is
21 really one where the members are assessable, and I
22 think you said you thought that is where the line crossed
23 over.

24 MR. HAM: Yes.

25 THE CHAIRMAN: Then there are the non-assessable
26 mutuals and I guess what you call line companies.

27 MR. HAM: Yes, that is one of the terms they
28 use for joint stock.

29 THE CHAIRMAN: Do you have the figures to
30 indicate the amount of business or the number of companies



1 in each of the three classes, the amount of tax paid
2 by these companies, or can we get them?

3 MR. HAM: It wouldn't be much of a problem,
4 it wouldn't be too big a problem to get the figures from
5 the Dominion blue book. But that is very distorted
6 because the bulk of these little mutuals are not in it.
7 While there is a great similarity in the insurance acts
8 in all the provinces, there are a certain number of
9 differences.

10 COMMISSIONER GRANT: Sometimes the provinces
11 delegate the inspection of the insurance companies
12 incorporated under provincial legislation to the Department
13 of Insurance in Ottawa. That is true, I know, in the
14 Province of Nova Scotia. Is that generally true?

15 MR. HAM: Well, I think all the provincial
16 departments maintain inspection staffs. I think they
17 would rely on the Dominion department with respect to
18 dominion-licensed companies.

19 COMMISSIONER GRANT: I am referring to
20 provincial licensed companies.

21 MR. HAM: And then some made a deal, and
22 they can make a better deal than they do themselves.
23 So the Dominion will step in, like in Nova Scotia, and
24 carry on inspection of their local company. Now, they
25 certainly wouldn't be doing it in Quebec; I don't think
26 I need to inquire to make that statement. In Ontario
27 I doubt that they do it because Ontario has quite a
28 substantial insurance department with a staff of their
29 own. The Dominion department does that work for some
30 of them.



1 THE CHAIRMAN: Would you return to my question
2 on the figures. You were telling me about the
3 difficulty of assembling them.

4 MR. HAM: Then you would have to take each of
5 the provinces and see if they -- for instance, P.E.I.
6 I don't think would give us any information at all.
7 It is a fairly substantial book. That is the Quebec
8 superintendent's annual report there. That is about
9 the size the book is in each province. But you could
10 get the figures where they are available and just have
11 to make estimates. Leaving out P.E.I., for instance,
12 or Newfoundland, I don't know what it would do to the
13 whole picture, but it couldn't do very much.

14 THE CHAIRMAN: What figures have your
15 association assembled along the line which I inquired?

16 MR. HAM: We don't tabulate such figures.
17 Our tabulation is really directed to loss, directed
18 towards rate-making, and not competitive, other than
19 the collection of taxes that might be paid.

20 COMMISSIONER PERRY: I have been listening
21 with interest to Mr. Ham. I think it is clear from
22 his testimony and his brief that he concedes that we
23 are not dealing entirely with black and white here;
24 we go all the way from the admittedly purely mutual type
25 of operation, from one end to the pure stock company
26 at the other. So we are in this middle ground,
27 groping along for some clues by which to establish a
28 dividing line. At this time we must keep an open mind
29 on that.

30 Some of the things which you have mentioned or



1 laid stress on are, first of all, the corporate form
2 of organization. Would you think that this is one of
3 the indicia of this kind of entity which you feel
4 should be taxable.

5 MR. HAM: Well, the thing that amazes me
6 about this kind of thing is that if the three pools
7 or any one of them decided that they could get their
8 insurance protection cheaper by setting up a self-
9 insurance fund over a period of years, as I read the law,
10 they would have to pay income tax on the amount allocated
11 to reserves. So they quite rightly say, well, if we
12 created a corporation and let it collect the fund,
13 we avoid taxation. They control that fund in the pool
14 insurance company reserves as easily as they control
15 it in the name of the respective pools, but because we
16 have a piece of paper, letters patent, sitting in
17 between, taxes are avoided. It is very artificial
18 in my mind that you can get out of tax that way, just
19 getting a piece of paper and putting it in the safety
20 deposit box. That is what it amounts to.

21 COMMISSIONER PERRY: Nearly all corporate
22 activities could be carried out effectively through an
23 associate.

24 MR. HAM: Yes, the reciprocal operation could
25 be carried on that way.

26 COMMISSIONER PERRY: Another point you mentioned
27 is the writing of non-assessable policies. You think
28 this is quite a clear test of movement away from being
29 a true mutual.

30 MR. HAM: Yes.



1 COMMISSIONER PERRY: Is this one that you
2 would think has proved conclusively that it has moved
3 away, or do you look to other things, too?

4 MR. HAM: I would say that the industry which
5 I represent would support, by their action five or six
6 years ago, taking out of their own articles of
7 association the qualification that a member had to be
8 a joint stock company, because they operated on the same
9 basis as we did and could, if they wished, subscribe
10 to our articles of association, and we would be happy
11 to let them in. But they don't operate on a truly
12 mutual basis, they operate on the basis of the Royal
13 Insurance Company or any other insurance company.

14 COMMISSIONER PERRY: You almost answered my
15 next question by answering that one. But if you
16 concede that there is justification for patronage
17 dividends, just using the term generically, is your
18 grievance addressed to the fact that they are only
19 allocated and not paid?

20 MR. HAM: That is in part; that is an
21 incidental comment on it.

22 I should say this, that any insurance company
23 does a little bit of this policy dividend business, but
24 is on a little different basis. When you get large
25 corporations whose spread of risk -- and this doesn't
26 apply to fire, liability and automobile and that sort
27 of thing -- they have a large spread of risk and they
28 have got almost to the point where they could carry
29 the risk themselves out of current -- they have enough
30 units and not too big an exposure, and there is what is



1 called a retrospective rating. We are a little bit
2 involved, but I think that could be adjusted to meet
3 our legislation.

4 What we said to the prospect is this: okay,
5 we will write that by so many tens of thousands of
6 dollars, and at the end of the year, if your loss ratio
7 has been less than so much, we will return on a basis;
8 if it has been more than that, you will pay us more.
9 So in a sense we are involved a little bit in this field
10 and in the sense of a deposit premium basis. That can
11 only be found where the person has sufficient spread
12 where he does write his own ticket because of the spread.
13 There is no good putting it on dwellings, for only one
14 house ~~and~~ ⁱⁿ ten thousand burn. But here is a case where
15 a man has a big spread. You could do it on fire if
16 you said to the C.P.R. or C.N.R.: We will cover all
17 your small stations under a value of \$5,000.00. They
18 don't insure them because they are only going to have
19 so many a year and they replace them. But we will carry
20 those on the basis that if you lose less than five a year
21 -- I am just picking that figure out of the air -- we
22 will return you something; if you lose more than five,
23 you will pay us something, because there are enough of
24 those small stations that an insurer could develop his
25 own experience.

26 COMMISSIONER PERRY: I suppose another
27 condition would be the evidence of substantial income
28 other than income arising from insurance, say, investment
29 income.

30 MR. HAM: Oh, yes. You could own insurance



1 buildings, landlord-tenant relations.

2 COMMISSIONER PERRY: This, incidentally, makes
3 me wonder what the particular advantage of the mutuals
4 is at the present time. Apparently they are not under-
5 pricing you. They are not paying patronage dividends
6 in the usual sense which would still attract custom
7 by handing money back to people.

8 MR. HAM: You see, Mr. Perry, at this moment
9 I have no complaints against mutuals as mutuals.
10 Twenty years ago I was fighting mutuals. It isn't
11 that. I only got involved in that here because mutualism
12 is something like a religion; you either get the faith
13 or you don't, and if you do you talk about it on every
14 occasion, and I thought if subsequent briefs dealt
15 with that field, at least I would get it on the record.
16 Whether it is operating like a joint stock company or
17 a mutual, frankly, I haven't any real solution to it,
18 because you would have to feel some certainty that your
19 point of view was accepted and what is your answer to
20 it.

21 COMMISSIONER PERRY: I think we appreciate
22 the burden of your argument very well. At the same
23 time we must concede that in nearly every country there
24 is some such thing as a patronage dividend recognized
25 in the tax law. Even in England, where the juris-
26 prudence on profit distribution is very difficult, the
27 law still recognizes a patronage dividend. There must
28 be something in it.

29 --

30

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1 MR. HAM: I say that even if you do accept that
2 proposition, it is drawing it a bit far.

3 COMMISSIONER PERRY: I wouldn't want to
4 suggest that there is anything sacred in this idea,
5 but at least there appears to be something.

6 MR. HAM: Yes, but it is going a little too
7 far when a company can in five or ten years pay up
8 as policy dividends \$574,000 and only \$17.25 as stock
9 dividends, on a working capital that ran from
10 \$215,000 to \$340,000. The minimum when the period
11 starts is \$215,000. Then they added a little bit more,
12 \$340,000, so they paid out a policy dividend in 1960
13 nearly three times the capital they have employed in
14 making it, and that is just a policy dividend. It
15 seems to me that somewhere in there the government should
16 be getting something.

17 COMMISSIONER GRANT: Well Mr. Ham, any
18 income from investments would not be available before
19 tax to make up this policy dividend, would it?

20 MR. HAM: Oh, yes. It must come from
21 somewhere.

22 THE CHAIRMAN: Why, Mr. Ham, did they pay
23 any taxes? They paid \$4,645. Did they make a mistake?

24 MR. HAM: They must have put some into
25 reserve. You see, an insurance company does not have
26 too much control of what it has in reserves, because
27 the Department at Ottawa says that you put up a certain
28 proportion of your outstanding liabilities willy-nilly,
29 and if you don't you are bankrupt as far as he is con-
30 cerned, although you might well be able to pay your debts.



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1 So he fixes what he must put in reserve that we are
2 writing on an increasing income, and he wanted some
3 reserve, and so he had to put some money into investments,
4 to put up in Ottawa, and on that money that was taken
5 out of income and put into investment an income tax
6 of \$4,000 was paid.

7 COMMISSIONER WALLS: That figure does
8 not include though the two per cent provincial tax?

9 MR. HAM: Oh, no. That \$4,000 is straight
10 income tax.

11 THE CHAIRMAN: You have no solution for us
12 at the moment Mr. Ham?

13 MR. HAM: At the moment none. I was hoping
14 I would get some indication of reaction as to whether
15 this situation was as silly as I think it is, and
16 if I did get a reaction in the affirmative I might
17 try to find a solution.

18 THE CHAIRMAN: Well, I think really you
19 should direct yourself to finding a solution depending
20 upon your convictions in the matter, and I would be
21 very grateful, if you are convinced that the law
22 is unsatisfactory as it now stands, if you would direct
23 yourself to that, and care to come forward with a
24 suggestion.

25 It is very easy to suggest repeal,
26 but I don't think that is what you are
27 seeking?

28 MR. HAM: No, that is correct. I would be
29 very happy to direct my attention in that direction.

30 THE CHAIRMAN: Thank you very much indeed.



1 You have been very helpful to us, Mr. Ham. We
2 appreciate your appearing today.

3 MR. HAM: Thank you, Mr. Carter, and for
4 the courteous hearing. I have enjoyed it.

5 THE CHAIRMAN: It has been interesting to
6 us.

7 MR. HAM: Would you care for me to leave
8 those figures?

9 THE CHAIRMAN: Yes, they would be useful to
10 us.

11 THE SECRETARY: We will enter those in the
12 record as Exhibit No. 11.

13 EXHIBIT NO. 11: Statistical
14 information.

15
16 ---Recess.

17
18 SUBMISSION OF
LIONEL E. BRITTLE

19 APPEARANCE:

20 Mr. Lionel E. Brittle

21
22 THE SECRETARY: Mr. Brittle is here to
23 present his brief, which I will now enter into the record
24 as Exhibit No. 12.

25 EXHIBIT NO. 12: Submission of
26 Lionel E. Brittle.

27 THE CHAIRMAN: Good day Mr. Brittle. It is
28 very nice to see you. It is very good to see a single
29 taxpayer representing only himself, which I understand
30 is the case with you, who is prepared to come forward and



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1 state his feelings about certain parts of taxation. At
2 the outset I indicated that I hoped taxpayers would do
3 this, because we can only learn about the troubles
4 of taxation if we hear from troubled taxpayers, which
5 I gather you are.

6 I notice at the conclusion of your sub-
7 mission to us that you indicate that you would be
8 willing to elaborate on the two points which you raise.

9 Would you care to comment by elaboration,
10 or would you like us to ask you a few questions?

11 MR. BRITTLE: Well, I think I will try
12 to elaborate somewhat. When I submitted my brief
13 I hoped my case with the local department would be
14 finished. However, we are in midstream at the moment.

15 Perhaps, not being associated with any
16 company, and seeing that I know who you gentlemen are
17 and you don't know me, I might tell you something about
18 myself.

19 I shall be 67 at the end of this year. I
20 have been in this country 50 years. I was born in the
21 Cotswold Hills, in England, and came here on my own just
22 before I was 16, on a holiday, and practically decided
23 to stay.

24 I have been working for some 40 years of
25 that 50, which includes five years in the Army during
26 the First World War, I have spent since the beginning
27 of 1925 in fund raising. First of all for 14 years
28 I was the Secretary of the local Red Feather, or
29 Welfare Federation. I was with them for 14 years.
30 By that time I had the unique distinction of being forced



1 into business. My Directors from time to time allowed
2 me to take on other projects, such as starting the
3 Vancouver Welfare Federation in 1930, and the calls
4 on my time from outside got rather embarrassing. I
5 discussed the matter with my Directors, and decided that
6 I would start in business.

7 Since then I have been an independent
8 operator, helping to organize campaigns for any
9 organization that was not political, and was of some
10 use to the community, or to the country.

11 I am glad to have the opportunity of being
12 here. As I said to Mr. Carter just now, I am afraid
13 I would not be here if the local department hadn't
14 stepped on my toes rather heavily last fall. I had
15 a call from the department that they wanted to come out
16 and just make a routine check. Well, I don't know
17 why they couldn't have asked me to go in. I was
18 perfectly willing. However, the representative came
19 out and he spent two separate days with me, going over --
20 I made my bank statement and all pertinent data available
21 to him. He said that he didn't think it would be
22 very serious. Then I was landed with a statement of
23 account for the years of 1959, 1960 and 1961, amounting
24 to \$970.

25 There are some items that were perfectly
26 legitimate. For instance, in the matter of income,
27 I had not recorded the income from certain bonds, held
28 as collateral for a bank loan, because the bank charges
29 more than offset the income. But where I was dis-
30 tressed was the arbitrary way of reducing expenditures



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1 which I was able to produce receipts for. However,
2 my first point was that seeing that I was about to
3 retire -- I haven't quite succeeded yet -- but seeing
4 that I was about to retire it would come as an awful
5 shock to most people to quit work at the age of 65,
6 and their income was correspondingly reduced, and I
7 was at a loss to know, seeing as I had received a
8 complete clearance from the department for the years
9 1959, 1960 and 1961, that they should come back and
10 do what they did.

11 My contention was that it would be better
12 if they could segregate any returns coming in for
13 people of 65 years of age and over, and give them one
14 final check, after which there would be no comeback.
15 It would save the department a great deal of work as
16 well, because in my own particular case of one man
17 coming up for two days, and Lord knows how much longer
18 it is going to be. I think at the present moment that
19 they are going to finish up the way they started.

20 What I would like to do for your record, when
21 the thing is finally cleared up, is to write to
22 Mr. Bennett and give him the details, but I have just
23 received -- I protested at the beginning. I found I
24 was getting into deep water, so I appealed to a friend
25 of mine who had made a business of going into income taxes.
26 He interceded with the department for me, and the result
27 was that they said they would review the case. I have
28 been to the department a couple of times, but with no
29 satisfaction. Then I received a statement of account for
30 \$34 and some cents being interest on bonds. At least, when



1 I say I received it, it was sent to my son. I pointed
2 out the error, and they said they had deducted that
3 amount from my account, and then presented a bill for
4 payment, in the amount of \$677. That is \$300 less.
5 I concluded that they had relented to some extent, and
6 paid the amount after I had received several letters
7 saying pay up or else. So that amount was paid in full
8 in January.

9 Now I have received another group of
10 statements of account, and they start off with the
11 premise that I owe them \$300 on back payments. Then
12 they have made allowances for certain items such as
13 I use my own house as an office. They have allowed
14 rental for that, and they have given me a cheque for
15 \$51, but in making this allowance they have completely
16 overlooked my claim that for 1961 I should have a
17 deduction of \$500, having passed the age of 65. They
18 have overlooked a donation of \$160-odd given to the
19 church, and they have made one or two other cuts on
20 expenditures. So that the matter is still very much
21 in abeyance with the department. My friend has had
22 two sessions with them, and they hope to come up with
23 a decision before the end of this week.

24 THE CHAIRMAN: You essentially, Mr. Brittle,
25 are making a distinction between those over 65 and others.
26 There are a lot of over 65 taxpayers, something around
27 250,000 I understand.

28 Do you suggest that there should be a given
29 priority with respect to assessing those returns?
30 I was not very clear from what you said,



d8
1 or what you have written, why a person over 65
2 should be dealt with before anybody else in the assessing.

3 MR. BRITTLE: Because at 65 they are
4 generally speaking -- a person's income declines quite
5 rapidly, and to go to a person who, say, is on pension
6 and present him with a bill, as I was presented with
7 nearly \$1,000, would work rather a hardship.

8 Again I think that the Department could
9 save money if they settled the thing once and for all,
10 instead of just making a very ordinary appraisal of
11 the situation at the time. I am thinking, I must admit,
12 of those people who are on reduced income after 65.

13 THE CHAIRMAN: Your argument is really
14 addressed to the fact that when a person retires his
15 assessment should be done promptly, rather than a
16 continuing prompt assessment for people over 65.
17 It is a one-time operation that you are thinking of?

18 MR. BRITTLE: Yes.

19 COMMISSIONER WALLS: With respect to the
20 charitable deduction which you made to the church and
21 which was not allowed, what type of receipt did you have?

22 MR. BRITTLE: I had a receipt from the
23 Treasurer of the Church.

24 COMMISSIONER WALLS: An end of the year
25 receipt?

26 MR. BRITTLE: Yes, and I am sure that they had
27 no option but to admit it. I rather think that the
28 person, or persons who were processing my return were
29 probably overworked, or didn't have the time, and just
30 sort of passed it up, but I think that the assessment for



1 \$300, somebody has made an error in my favour.

2 COMMISSIONER MILNE: Did I understand
3 you correctly in saying that on your T-1 General for
4 1961, that would be when the \$500 would first be
5 applicable?

6 MR. BRITTLE: Yes. Well, I was in error
7 in not claiming it. I have done what I am afraid
8 too many people do. Just take the last year's return
9 and say I will just fix this and fix that, and thank
10 the Lord that is out of the way, instead of claiming
11 what they should.

12 COMMISSIONER MILNE: Did you file an
13 amended return?

14 MR. BRITTLE: Yes indeed.

15 COMMISSIONER MILNE: And it was on the basis
16 of the amended return that they didn't allow the \$500?

17 MR. BRITTLE: Yes, it has been drawn to their
18 attention, and it is under consideration.

19 THE CHAIRMAN: But you are bound to get it.

20 MR. BRITTLE: I don't think they have any
21 option.

22 COMMISSIONER MILNE: On your T-1 General for
23 1959, 1960 and 1961 how do you describe yourself as to
24 occupation?

25 MR. BRITTLE: Campaign Director or Fund
26 Raiser. Fund Raiser is the popular term. You see, it
27 is a more or less unique occupation, and because of that
28 those in the Department are not familiar with the
29 expenses you may feel are reasonable, and are inclined
30 to treat you probably as a travelling salesman. They



1 say he is trying to get away with travelling expenses,
2 and we will cut it in two.

3 COMMISSIONER MILNE: Possibly my question
4 does not seem too much related to what you are getting
5 at in your brief. This is a very special type of
6 operation, I am sure, this fund raising, and I am sure
7 the Department would view it in that light. Whatabout
8 your expenses? I mean, did you have any claim on any
9 group to finance you?

10 MR. BRITTLE: Ordinarily, Mrs. Milne,
11 when I contract to help an organization raise some money
12 a contract is drawn up, in which it is specified that
13 all expenses in connection with the campaign are paid
14 by the organization employing me. However, in certain
15 instances I undertake, for instance, I have a case
16 in point that I am just finishing up, and that is
17 a loan of honour fund for the French Protestant school
18 at Point aux Trembles. They are really, I should not
19 say financed by the United Church, but the United Church
20 stands in back of them, and make up any deficit in
21 the school. It is a capital fund, where the interest
22 may be loaned to promising students who wish to go beyond
23 the eleventh grade, through university. When I started
24 out on this campaign the loan of honour fund was just
25 so low that they hadn't any money for expenses, so I
26 said what I will do, instead of insisting on the 20 per
27 cent of the fee in advance, I will just wait until the
28 money comes in. Then, not wishing to over-
29 burden them with expenses, I made two trips to 85
30 St. Clair East, the United Church headquarters, at my



1 own expense, and didn't put that into the campaign
2 expense. That is one type of expense where I see fit
3 to take on a portion of the expense myself. Another
4 type of expenditure, being more or less in a professional
5 capacity, I do not solicit business. On the other
6 hand, it is to my interest to be at certain conferences,
7 and that involves travelling expenses which I undertake
8 on my own. You could really call it advertising,
9 or promotion.

10 COMMISSIONER MILNE: Were any of these
11 expenses the ones that were questioned by the
12 Department?

13 MR. BRITTLE: They didn't question that
14 particular expense, but just said generally this is out
15 of proportion to your income.

16 COMMISSIONER MILNE: This amount of \$970
17 was apparently reduced, and now it is back on?

18 MR. BRITTLE: The \$970 went up to about
19 \$1,000 with interest while I was disputing the thing.
20 Then the Department billed my son for \$34 for the income
21 of certain bonds which the bank was holding. I sent
22 the statement back to the Department and said this is
23 not my son, this is interest on bonds which I own.
24 They therefore took the \$34 off the \$970 or whatever it
25 was and came back with \$677, making as far as I can find
26 at the moment, a \$300 mistake in my favour. They sent
27 several letters with the \$677 figure, which I eventually
28 paid. Now they have evidently -- I don't know, I am
29 just presuming this -- discovered their error, and they
30 are coming back on me now for the \$300, but they had



1 allowed expenses which I hadn't previously claimed.
2 My friend said you are allowed expenses for rent of the
3 office, and things which I had not claimed, so they
4 sent me a cheque for \$51 and some odd cents.

5 Now my contention is that I must receive
6 a further refund on account of the \$500 allowance for
7 being 65 or over, plus a further rebate for the
8 donation to the church of \$160. Then I don't know just
9 where this \$300 comes in. They have assessed me \$300,
10 and whether they are going to have to swallow their
11 mistake --

12 COMMISSIONER WALLS: I don't see any
13 relationship between your present problem and that of being
14 over the age of 65.

15 MR. BRITTLE: Oh, no. There are two
16 separate problems, Mr. Walls, as I see them. One is
17 the 65. Then the other one is entirely separate,
18 that being in a business or profession, what you will,
19 it is unusual, and the Department are not too well
20 equipped to intelligently assess what expenses are
21 reasonable.

22 THE CHAIRMAN: Your profession is becoming,
23 of course, much better known all the time.

24 MR. BRITTLE: Oh, yes, surely.

25 THE CHAIRMAN: And I suspect that there are
26 a lot of people in the Department becoming familiar
27 with fund raising activities.

28 MR. BRITTLE: Yes. I am probably not
29 only the oldest fund raiser in Canada, but probably the
30 only one operating just by myself, without an established



1 organization.

2 THE CHAIRMAN: Well, we shall certainly
3 consider what you had to say to us, Mr. Brittle,
4 but it is not really in our authority to interfere
5 with the practices of the Department.

6 MR. BRITTLE: Oh, no. I realize that.

7 THE CHAIRMAN: I am sure you do.

8 MR. BRITTLE: I just quote that to
9 illustrate the fact.

10 THE CHAIRMAN: All I am saying is please
11 continue to fight your own battles.

12 MR. BRITTLE: I would like to present to
13 you, through Mr. Bennett, the final outcome of the
14 battle.

15 THE CHAIRMAN: I hope you will.

16 COMMISSIONER MILNE: We will be interested
17 in knowing.

18 THE CHAIRMAN: Thank you very much sir.

19 MR. BRITTLE: I notice on the new forms that
20 they are returnable to Ottawa, instead of the local
21 department. Is there any particular significance to
22 that?

23 THE CHAIRMAN: I think it is because the
24 Department is becoming more highly mechanized all the
25 time. There are computing installations, increasing
26 in size and importance.

27 MR. BRITTLE: At the Rotary Club last
28 Tuesday Lord Amory was talking about the balance of trade
29 between Canada and Britain, and he was talking about
30 mechanization. He said that he went into a plant in



1 Britain, that in one operation previously employed
2 about 200 to 300 men, and that instead of that there
3 was a machine some 200 or 300 feet long, and the only
4 two people there was a man at one end and a man at the
5 other end. Lord Amory said to them "Well, what
6 happens if one of these men falls sick or something?"
7 They said "You don't need to worry about that. We
8 have got a machine watching each of them".

9 Thank you very much.

10 THE CHAIRMAN: Mr. Bennett, have you
11 anything to say before we adjourn?

12 THE SECRETARY: I would just like to say,
13 sir, that tomorrow morning at 9:30 we will meet here
14 again. The Toilet Goods Manufacturers' Association
15 will be presenting a brief. They will be the first
16 participant. We have other participants tomorrow
17 as well, the Avon Products of Canada Limited and
18 the Canadian Research Committee on Taxation.

19 THE CHAIRMAN: Thank you Mr. Bennett.
20 We stand adjourned until tomorrow morning at 9:30.

21
22
23 ---Adjourned.

24
25 --

26
27 --



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION ON TAXATION

Hearing held in Room 404,
McConnell Engineering Building,
McGill University, Montreal,
Quebec, the 23rd day of April,
1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT



ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF MONTREAL, QUEBEC

April 23, 1963

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TORONTO, ONTARIO

Montreal, April 23, 1963

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1 ---On resuming at 9:30 o'clock a.m.

2 THE CHAIRMAN: Mr. Secretary, we have now
3 reached 9:30, and the hearing will come to order.

4 We have a delegation, I believe. Have we
5 any other business?

6 THE SECRETARY: We have three participants
7 appearing this morning, sir. The first organization
8 is The Toilet Goods Manufacturers Association, and Mr.
9 K.J. Eccles, President of the Association and Mr.
10 Gillies, Executive Director, will present their brief,
11 which I enter into the records as Exhibit No. 13.

12 ---EXHIBIT NO. 13: Brief of The Toilet
13 Goods Manufacturers
14 Association.

15 SUBMISSION OF THE TOILET GOODS MANUFACTURERS
16 ASSOCIATION

17 APPEARANCES: Mr. Kenneth J. Eccles, President
18 Mr. Sidney A. Gillies, Executive Director.

19
20 THE CHAIRMAN: Thank you, Mr. Secretary.
21 Good morning, Mr. Eccles and Mr. Gillies. We have read
22 with considerable interest your submission to us.
23 Sometimes participants appearing like to add to what
24 they have already put before us, like to discuss it,
25 and other times they prefer to proceed directly to our
26 questions to them. We have a number of questions, but
27 if you would like to say a few words before that, we
28 would be very glad to hear them.

29 MR. ECCLES: Thank you, Mr. Chairman. I
30 certainly appreciate this opportunity of appearing before



1 you on behalf of the Association on the occasion of this
2 Royal Commission on Taxation.

3 First I should explain that The Toilet Goods
4 Manufacturers Association is a trade society,
5 representative of manufacturers and the voice of personal
6 care and cosmetic products in Canada. The output of
7 the industry is variously described as toiletries,
8 cosmetics, health and beauty aids.

9 It is our purpose to suggest to you very
10 strongly that expediency rather than rational planning
11 has characterized the application of the excise tax to the
12 products of our industry; that this application in an all-
13 inclusive way to toilet goods without exception for a
14 period of over thirty years and has resulted in
15 inequities; that consequently the excise tax should
16 be removed from "cosmetics" defined in Section 2(1)(a)
17 and in Section 2 of Schedule I of the Excise Tax Act;
18 and that any revenue so lost be taken up under the
19 general sales tax, if necessary.

20 As shown here, our membership comprises 78
21 active manufacturers, and we feel that this represents
22 approximately 95 per cent of all manufacturers in Canada.
23 In addition, we represent 74 associate companies that
24 manufacture supplies for the industry or are concerned
25 with the marketing ^{of the} industry's output. At factory
26 selling prices, in 1961 the volume of our industry was
27 \$89 million.

28 THE CHAIRMAN: That is at what level?

29 MR. ECCLES: Manufacturer's price, tax
30 included.



1 The average number of factory personnel of our
2 member companies whose main production was toilet
3 preparations was 2,636 in 1960, the last year for which
4 we have a record.

5 Additionally, factory products fan out widely
6 through distributive channels on the way to the
7 consumer. Non-production people deriving livelihood
8 in whole or in part from the industry include sales
9 agents, wholesale distributors, demonstrators and marketing
10 personnel to the number of 25,000, by conservative
11 estimate. However, the scope of our industry is less
12 clearly indicated by statistics of production and
13 employment than by looking at the myriad ways in which
14 its products minister to the needs and maintain the
15 personnel care standard of our society.

16 So that you may be a little more aware of what
17 we are manufacturing, this is an abbreviated list of
18 the classes of products that have long since moved into
19 the category of every-day necessities for the great bulk
20 of the population. I would mention, for example,
21 baby care products, baby oils, baby powders, toothpaste,
22 shaving creams, personal deodorants, etc.

23 But other products have varying degrees of
24 essentiality, determined by the particular level attained
25 by rising personal care standards. Another product I
26 would like to bring forward is lipstick. Members of
27 your Commission will have learned that women feel
28 virtually unclad without their lipstick. And any one
29 of your members would be intrepid indeed to attempt
30 to determine the effects of such a product upon the self-



1 assurance, poise and sociability of users, or upon the
2 aesthetic sensibilities of observers, and from these
3 two reciprocal benefits to develop an index of relative
4 social utility. If you think back thirty years ago
5 when the excise tax was first imposed, perhaps at that
6 time we considered lipstick as a flapper's fancy,
7 worn by girls of 18, 19, perhaps to 25, but I would say
8 now that all girls from 15 wear lipstick.

9 Another thing is that with the winter in
10 Canada you will find many more cracked lips in men than
11 in women.

12 THE CHAIRMAN: You are not suggesting lipstick
13 for men, are you?

14 MR. ECCLES: No, not with colour.

15 Seriously, the application of the excise tax
16 to all products of our industry is inequitable. No
17 other industry is saddled with a similar, all-inclusive,
18 basket treatment which, by its complete coverage,
19 becomes an industry levy rather than a commodity tax.

20 Since the inception of excise taxes in 1915,
21 93 classes of goods and services have been made
22 excisable at various times. When the tax was applied
23 to our industry in 1933, the affected products were
24 very broadly defined as "toilet articles, preparations
25 or cosmetics" -- just a basket definition. The
26 definition was all-embracing and has not changed in
27 thirty years. The tax remains to this day on the
28 entire group. So from the point of view of the
29 improvement of health and beauty in our country, every
30 new product becomes excisable. In contrast, during



1 this same period, it has been lifted on all but 16
2 of the 93 items which have from time to time come under
3 its provision. There has been no change in excise tax
4 on lipstick, but it has been removed from mink coats,
5 yachts, sporting goods, and it has been recently
6 removed from soaps because the Minister couldn't
7 distinguish between toilet soap and laundry soap.

8 Even this brief review of this historical
9 background of the legislation would strongly suggest
10 to the student of taxation that here is a case where
11 experienced out-weighed equity and where the need
12 for revenue took priority over rational planning.

13 I would like to refer to card 5 here to
14 indicate how lack of rational planning has resulted in
15 haphazard incidence of the taxation.

16 Assuming for this purpose that you have no
17 prior familiarity with the Excise Tax Act, I ask you to
18 determine by any process of logic or deduction which
19 of these articles is excisable and which is not. I
20 think all in the Department of Health, Dental
21 Association, Medical Association, recommend that the
22 first thing you should do in the morning is clean your
23 teeth. So you take a tube of toothpaste, and before
24 you use it it has got excise tax on it, but before you
25 use it you have to have a toothbrush, and there is no
26 excise tax on a toothbrush. If we use shaving cream
27 or soap we have paid excise tax on it, but for the
28 razor blade we have not paid excise tax. Let's take
29 soap, baby soap, for example. The mother washes her
30 baby with the soap and she doesn't have to pay excise



1 tax, but it is a recognized fact today that oil is used
2 for the skin and she has to pay excise tax on that, it
3 is a luxury thing. Today, generally it is recognized
4 that everybody likes to feel clean and sweet-smelling
5 and they use a deodorant, and if you do you have to pay
6 excise tax. Again, if we use a deodorant to make
7 your home fresh, you don't have to pay excise tax. I
8 asked people which of these products they think should
9 have an excise tax if one was imposed, and the only one
10 that was picked was a household deodorant.

11 Is it not obvious that anomalies such as these
12 are an affront to the principles of sound taxation?

13 The effects of the excise tax on the toilet
14 goods industry are so far-reaching and interrelated that
15 it is difficult to segregate the specific subject areas
16 referred to in P.C. 1962-1334. However, our brief
17 makes the following relevant points.

18 In respect to the distribution of the tax
19 burden, as between industries, our industry is the only
20 one whose total output is subject to excise tax. For
21 three decades, the industry has had to shoulder the
22 administrative burden of collecting and accounting to
23 government for two types of taxes on sales. And, in
24 addition, many of our members have to break down their
25 sales even further on account of the rulings in conn-
26 ection with 13(1)(32) which points out 26 different
27 methods for assessing a sales price for toilet
28 preparations.

29 Turning to the consumer, I would draw your
30 attention to the fact that basing the tax on



1 manufacturers' selling price has a multiplier effect on
2 trade and consumer prices. Added imposition of local
3 government sales taxes results in taxation of taxes
4 to further pyramid the tax burden on the ultimate
5 consumer.

6 Here is an example of card 4 of this
7 pyramiding effect. It is shown by this comparison
8 of the cost structure for two items, the manufacturers'
9 level of a dollar, one being excisable and one excise-
10 exempt. You will notice that when the excise tax of
11 10 cents goes in the consumer price goes up by
12 approximately 19 cents more for the excisable item than
13 for the non-excisable item; and there is also the sales
14 tax. In other words, the excise tax is ten cents,
15 and by the time it gets to the consumer it is 19 cents.

16 THE CHAIRMAN: Is it quite fair, Mr. Eccles,
17 to assume that the margin, both for wholesalers and
18 retailers, is the same for A and B?

19 MR. ECCLES: Yes. That is a minimum
20 distributor's cost, 15 per cent.

21 Where excisable products are universally or
22 broadly used, the tax burden is at least spread
23 equitably over the population as a whole. But when
24 the need is not universal, as with baby oils and baby
25 powders, the burden falls entirely on those having
26 special needs, in this case, on the parents of young
27 children, imposing a penalty on parenthood.

28 The excise taxes have both direct and indirect
29 effects on the standard living. Directly, even
30 modest taxes which push up the prices to the consumer



1 have the effect of inhibiting purchasing. And this
2 inhibiting effect is compounded by the multiple
3 factor.

4 In dealing with the effect of taxes on
5 consumer prices and purchasing, it should be noted as
6 a fact of the marketplace that every product offered
7 for sale is in competition not only with products of
8 its own class or kind, but with all products for the
9 consumer's limited supply of dollars. Thus, due to
10 the price spread between excisable goods and goods not
11 so taxed, the products of toilet goods manufacturers
12 are at a competitive disadvantage with the great
13 majority of those products of manufacturers whose goods
14 are not excise taxed.

15 And these same factors that arbitrarily
16 increase prices not only reduce consumption but also
17 inhibit industrial expansion.

18 This chart No. 7 suggests a correlation between
19 excise taxation and the rate of expansion of our
20 industry.

21 In 1919 the ratio of Canadian production to
22 imports for toilet preparations was roughly one to one.
23 By 1939, a period of vigorous growth, it was fourteen
24 to one; in 1960 it was only 20 to one. In these
25 twenty-one years we have only been able to increase
26 the ratio to six to one, and most of these years were
27 during the time we have had this excise tax.
28 Incidentally, in certain cases, toilet goods, drugs,
29 pharmaceuticals, the sales and excise taxes must be
30 paid on the selling price, but in all other industries



1 the sales tax can be paid at the time of import. We
2 are not complaining about that, except that if we have
3 to pay the excise tax at the time of selling, everything
4 else in its completed state should pay their excise
5 tax at the time of selling.

6 THE CHAIRMAN: Do you say that that would
7 have been better had it not been for excise taxes?

8 MR. ECCLES: No, we cannot prove that. This
9 is theoretical, but we feel definitely if we hadn't
10 had excise tax there is no doubt we would have been
11 able to expand because we are an industry all by
12 ourselves, we cannot enjoy the privileges of
13 merchandising that a lot of industries can.

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B-1/AG/Je

1 This may sound theoretical and speculative.

2 In actual fact, in an industry such as ours, manu-
3 facturers are continually assessing the market potential-
4 ities of proposed new products, and are continually
5 making decisions for or against new domestic production.
6 Costs, prices and profit-possibilities are of paramount
7 concern in these deliberations. Where profit potentials
8 are too low in relation to risks involved and
9 alternative courses of action presented, decisions go
10 against production.

11 Many cases could be cited in our industry
12 in which the effects of the excise tax in widening
13 price spread from factory to consumer and in narrowing
14 profitability have tipped the scales of decision
15 adversely.

16 I have to explain for a minute our type
17 of industry. You might have a product which you could
18 sell at \$1, but because of the incidence of excise
19 tax we might have to price it at \$1.10. In many
20 instances that product might be discarded, because the
21 sales might be one in four. In my particular business
22 they could be more. I sell at 98 cents. If I
23 sell at \$1.10 I am a dead duck. My customers just
24 won't handle them.

25 That taxation can impede industrial growth
26 is beyond dispute. We predict that freeing our industry
27 from the excise tax burden would contribute importantly
28 to its expansion

29 You gentlemen have seen in Appendix F of
30 our submission where even the slightest administrative



1 ruling can cause a furore and make a considerable change
2 in our whole industry, even for a minor matter.

3 Our industry suffers a further hardship in
4 a unique way. And this will answer something, where
5 we are talking about expansion here. This comes to
6 light in what is called "combination selling", that
7 is, when we package combinations of excisable and non-
8 excisable products.

9 Following a reversal of rulings by the
10 Department of National Revenue in 1959, our industry
11 has been refused proration of excise tax on such
12 combination offers. We are the only industry whose
13 products in their entirety are subject to excise tax.

14 Here is Card No. 8, in part. Examples
15 will show the hardship this ruling imposes on our
16 industry. Here is a hypothetical yet typical example
17 in which a non-excisable and an excisable product are
18 sold as separate items.

19 A razor and a tube of shaving soap, sold
20 separately, cost the consumer \$5.43. You will readily
21 see how the consumer price is built up from the
22 manufacturer's base price, by the sales tax on both
23 items, and the excise tax on the shaving cream. In
24 this case, the base price is \$2.55 for the razor, and
25 21 cents for the shaving soap. The 11 per cent sales
26 tax applies to both products but the excise tax applies
27 only to the shaving soap to bring the manufacturer's
28 selling prices to \$2.83 and 25 cents. Wholesale
29 and retail margins then bring the consumer price up to
30 \$5 and 43 cents respectively.



B-3

1 Now let us see what happens when the non-
2 excisable razor and shaving soap are packed in a
3 wrapper. That is what the regulations say, a wrapper
4 or a box. We end up with a \$5.43 value, you might say,
5 selling for \$5.90. This is due to the proration denial.

6 Incidentally, in a retail store, your
7 corner druggist or department store, can buy the mer-
8 chandise like that, and there is no excise paid on the
9 razor. He can take the two items out back and put them
10 in a box and sell them to the customer at \$5.43, if
11 he wants, but we can't package them and send them into
12 his store in a box without having him have to sell them
13 at \$5.90.

14 Now let us see what would happen if the
15 non-excisable razor were to be included in a combination
16 offer with the excisable shaving soap.

17 The manufacturer's base price will remain
18 the same as in the other example -- \$2.55 for the razor,
19 21 cents for the shaving soap. The 11 per cent
20 sales tax similarly applies to both products. But whereas
21 the excise tax applied only to the shaving soap when the
22 products were to be sold separately, it now applies
23 also to the razor (due to proration denial). It adds
24 26 cents to that item to bring the manufacturer's selling
25 price to \$3.09 as against \$2.83 in the other example.
26 Distributor's and retailer's margins then bring the
27 consumer price to \$5.90 for the combination, or 47 cents
28 more than consumers would have to pay for both
29 products separately. Such a combination offer, would,
30 of course, be ludicrous.



1 We have presented these examples as
2 indications of handicaps peculiar to our industry as
3 a result both of the application of excise tax to our
4 products and of the operation of Section 22(2)(a) of
5 the Excise Tax Act in imposing the tax on non-excisable
6 goods. We are seriously hampered in presenting logical,
7 attractive combinations of products of our own member
8 manufacturers. And most important we are virtually
9 excluded from the possibility of selling our products
10 to manufacturers of non-excisable goods for their mer-
11 chandising needs.

12 I think you are all familiar with the
13 famous soap package with the towel in it. Well, the
14 towel manufacturer can sell the towels to the soap
15 manufacturer and charge the soap manufacturer the sales
16 tax. When the soap manufacturer puts the towel
17 in his soap and sells it as a unit, he claims back the
18 sales tax he paid to the towel manufacturer. We can't
19 do that. We can visualize going to a belt manufacturer
20 and saying, "Why don't you put your belt in a bowl
21 of our shaving soap?". He won't do it, because he has
22 to pay excise tax on it. The ultimate person to benefit
23 is the consumer, because there is always an ultimate
24 kind of benefit for the consumer in packaging combinations.

25 We have suggested to you that certain
26 inequities have resulted from the application of the
27 excise tax to the products of our industry in an all-
28 inclusive way, and that there is the danger that tradition
29 rather than reason has maintained this anomalous situation
30 unchanged over the last three decades through a succession



B-5

1 of governments.

2 We have suggested specifically in our brief
3 that the Excise Tax Act is so imprecisely drafted
4 as to require elaborate administrative rulings, that
5 it provides too wide an area for the Minister's
6 discretion, that it lacks direct ready recourse for
7 appeals and that it lacks a statutory definition of
8 "selling price".

9 We further suggest that gross revenue from the
10 tax as applied to our industry is small indeed when
11 measured against the adverse effects upon the production
12 and growth of the industry. Excise tax revenue from
13 industry in the fiscal year ending March 31 in 1962,
14 totalled \$8,900,000 or .8 of 1 per cent of revenues
15 from general sales and excise taxes. And as a
16 percentage of federal government revenues from all tax
17 sources, it represented only .17 of 1 per cent.

18 Under these circumstances, we conclude by
19 recommending that the excise tax be removed from the
20 products of our industry. We suggest that the revenue
21 so lost could be taken up by miniscule adjustments of
22 sales tax rates if necessary, and would be otherwise
23 offset by the reduction in administration costs effected
24 and by increased revenues on the increased production
25 and employment resulting from the taxation relief.

26 In summary, we ask for relief from:

27 The inequity of excise taxes applied in an
28 all-inclusive way to the products of our industry alone;

29 The inflexibility of application which
30



1 has held the products of our industry without exception
2 under excise tax coverage for three decades;

3 The imprecision of an Act which requires
4 elaborate administrative rulings, provides too wide
5 an area for the Minister's discretion, and lacks a
6 statutory definition of "selling price";

7 The pyramiding of costs which can have the
8 effect of almost doubling the amount of the excise
9 tax in the consumer prices of our products;

10 The handicapping of merchandising by the
11 hardship imposed on our industry when we may wish to
12 package combinations of excisable and non-excisable
13 products;

14 The adverse effect on growth of our
15 industry as it faces the competition of other industries
16 not similarly handicapped in pricing their products.

17 Mr. Chairman and gentlemen, for these reasons
18 we respectfully ask for the removal of the excise tax
19 from toilet goods.

20 We suggest that if this action should make
21 necessary any minor adjustments in provisions for
22 government revenue, upward adjustment in sales tax rates
23 should be considered. We would be most amenable to such
24 an equitable alternative to the inequitous excise tax.

25 We will be glad to elaborate any of the
26 points we have presented or to answer any questions
27 you may have regarding our industry and its operation.

28 I think we should enter as an exhibit a
29 reproduction of these visual aids.

30 THE SECRETARY: They will be Exhibit No. 14,



1 Mr. Chairman.

2 EXHIBIT NO. 14: Reproduction of
3 visual aids.

4 THE CHAIRMAN: That is indeed a most powerful
5 representation, Mr. Eccles, and very ably presented,
6 if I may say so.

7 I think you have probably gone some distance
8 towards answering some of the questions we have to put
9 to you, but I would be surprised if we don't have a few
10 more.

11 COMMISSIONER WALLS: I would like to add
12 my congratulations to the Chairman's on your
13 presentation.

14 On page 3 you interpret the use of the
15 excise tax as a luxury. You did point out that this
16 creates inequities such as those ^{on} ~~in the~~ shaving cream
17 and baby powder, while it is not paid on such things
18 as mink coats and yachts.

19 Do you then feel that if it should be found
20 necessary to continue without an excise tax, or as an
21 alternative to create a variable rate sales tax,
22 that the higher tax on so-called luxury items should be
23 redefined, and what criteria would you use to define
24 the luxuries?

25 What I am getting at is that you are critical
26 of the interpretation that has been given with respect
27 to your items. Now, if it is the intent to create
28 in effect a luxury tax, what basis would you use for
29 defining a luxury then?

MR. ECCLES: That is a great question. You



1 are talking about all products now, not only our
2 products?

3 COMMISSIONER WALLS: That is right.

4 MR. ECCLES: That is a very hard question to
5 answer, as to what would be a luxury. Do you mean whether
6 a mink coat should be a luxury, or a tube of toothpaste?

7 COMMISSIONER WALLS: Yes, or even between
8 your items, if that makes it simpler for you. Would
9 you define it as the difference between a cosmetic and a
10 toilet article, or --

11 MR. ECCLES: Yes, I think I know what you
12 are getting at, and I think that is what could have
13 been done, if there had been an opportunity, and that
14 is one of the reasons why we have objected about one
15 industry being taxed. For example, if your Commission
16 is here going to start to establish the basis of luxuries,
17 then we in our industry could come along and say,
18 "Well, these items are of a more luxurious category than
19 these". Is that what you are getting at?

20 COMMISSIONER WALLS: Yes?

21 MR. ECCLES: Well, that could be done. We
22 do this in a lot of cases with other departments of
23 the government, Food and Drugs, Customs and other
24 administrative areas. We give them guidance of what would
25 be best for the country, and for our industry.

26 COMMISSIONER WALLS: Would you in effect, if
27 it were found necessary to continue this, or a similar
28 kind of a tax, would you prefer that the items be
29 considered separately, rather than the blanket coverage
30 of toiletries and cosmetics as you have in the Act at the



1 present time?

2 MR. ECCLES: Our brief points out that the
3 excise tax as such is inequitous, and it would be better,
4 and I think we ended our discussion by saying we would
5 rather see an adjustment in sales tax, because I think
6 of all the taxes that is one of the fairest, because
7 everybody pays it. If you buy an Austin A-50 car
8 and can only afford that, you pay the sales tax at that
9 level. If you can afford a Continental or Cadillac,
10 you pay the tax at that level, and we feel that
11 a sales tax adjustment would be better than any excise
12 tax.

13 THE CHAIRMAN: The other side of that
14 coin, Mr. Eccles, is of course that perhaps sales tax
15 should be progressive, like income tax, and it has
16 been represented to us that if there is a sales tax
17 it should be at varying rates of tax, which is fairly
18 common in other countries. We ^{could} have one tax, the sales
19 and excise tax and put them together. We have got that
20 kind of system already in Canada, although as you point
21 out it may be imperfect, and probably is, but I suppose
22 it is an attempt to effect a progressive tax structure.
23 With regard to sales tax, of course, your submission is
24 that it should not be progressive. It should be pro-
25 portionate, and there are people who feel that way about
26 income tax too.

27 MR. ECCLES: Well, similarly, as we have
28 pointed out in our brief, we of course know our industry's
29 problems. I should not be even attempting to answer
30 as to what should be a luxury, except in our industry, and



1 in our industry we would say well, certainly these
2 hundreds of products have to have a tax. Then we would
3 recommend to the government which should carry the tax,
4 and in your case, or the revenue-producing departments,
5 would survey that situation and decide on which items.
6 But I think, from a point of view of covering all our
7 industry and everything we bring into it, every product
8 we develop, with all the technological advances going
9 on today, no matter what we produce to do with the
10 hair, skin, or teeth, is taxable.

11 COMMISSIONER WALLS: I was rather surprised
12 at your emphasis on price, particularly when you were
13 talking about the difference that ten cents might make
14 on your ability to sell, because is it not correct
15 that when dealing with cosmetics they are predominantly
16 bought on a brand basis, rather than on the basis of
17 price? If a woman buys a lipstick, does she buy it
18 based on the price of that lipstick, or because one
19 particular brand suits her as far as the effect of the
20 content on her lips, and colour is concerned?

21 MR. ECCLES: Well, each one of us wishes to
22 believe that it is the brand, and asking me about my
23 lipsticks, I say it is the brand, except that mine
24 sells at 39 cents, and this man's, or somebody else's,
25 sells at \$3. But that is marketing. That has nothing
26 to do ^{with} where taxes are applied, and price has its
27 effect. We could take a lipstick at 49 cents. We
28 could sell it. If you have got a lipstick at 98 cents,
29 if you make it \$1.09, forget it. If you have an item at
30 \$1.65 and you make it \$1.75, you can still produce and



1 you will probably sell just about the same, but if you have
2 a \$2 item and you make it \$2.15 -- I am talking about
3 the general wide scope of the industry now, and not
4 taking the highly promoted individual brand name, and
5 that is the way a lot of our employment comes in, the
6 way it is sold. It depends on how the manufacturer
7 will sell it, but he is still going to find it harder
8 to sell at \$2.15 than at \$2.

9 COMMISSIONER GRANT: Are these prices to the
10 retailer, or retail prices?

11 MR. ECCLES: No, no. These are the consumer
12 prices.

13 COMMISSIONER GRANT: Well, isn't it true
14 that the retail taxes usually throw up these odd kind
15 of prices in a good many provinces now?

16 MR. ECCLES: Well, of course that is something
17 that you have already probably found out. The consumer
18 looks at an item, and in Montreal here it is \$1.06,
19 but if you put the price of \$1.06 on that product, plus
20 local tax, they won't look at it.

21 COMMISSOIONER GRANT: Yet he does not take
22 the local tax into account in thinking of the price?

23 MR. ECCLES: No. In other words, if you put
24 the price at 94 cents in Montreal, including tax, \$1.
25 We have to look at it as if there were no tax. We
26 merchandise an item in our industry, it would be the same
27 in Charlottetown as in Victoria probably.

28 COMMISSIONER GRANT: I know there is a lot in
29 what you say. I know the soft drinks people dreaded for
30 some time the time when they would have to leave a five-



1 cent product.

2 MR. ECCLES: But you have to recall too
3 that there was only one soft drink price, no matter
4 if there were 15 different brands they were all fixed
5 at seven cents. If they put out a 12-ounce bottle
6 at 12 cents, their competitor did too.

7 COMMISSIONER GRANT: Would your argument have
8 more validity for the less expensive toilet goods?
9 When you get up to more than \$2, let us say, is this
10 difference material?

11 MR. ECCLES: I honestly don't think so.
12 You are thinking in classes as now in effect on
13 jewellery.

14 COMMISSIONER GRANT: No, I was just thinking
15 of the lipsticks that my teen-aged daughter buys.
16 They are not 49 cents. I know that. And another 15
17 or 20 cents does not mean much to them, because I am
18 going to pay it on my drug bill.

19 MR. ECCLES: Well, you would be surprised
20 at how it can affect volume.

21 COMMISSIONER WALLS: I was interested in your
22 diagram dealing with pyramiding of price. Is that
23 not inconsistent with page 3 and Appendix F, where you
24 say:

25 " the sensitivity is because the 10 per cent
26 excise tax on cosmetics squeezes manufacturers'
27 margins to a serious degree".

28 Now, have you not in effect on your graph been
29 showing that your industry includes this tax as a cost,
30 and it is passed on to the consumer? Those are the



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1 words that you use, that it squeezes your manu-
2 facturers' margins to a serious degree.

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bg

1 MR. ECCLES: I think I can recall. You see,
2 here the manufacturer as such -- I remember this ruling
3 -- was able to pay tax and it became part of his cost
4 then, because then he could buy it from a customs
5 manufacturer and pay the tax and he made a profit when
6 he sold it.

7 COMMISSIONER WALLS: You agree that the
8 normal procedure is to pass this tax on to the consumer.

9 MR. ECCLES: That is right.

10 COMMISSIONER WALLS: In what way would the
11 removal of the excise tax encourage industry growth
12 in Canada, which is another statement of yours on page
13 3, when the same tax is paid by all of your competitors
14 and it is paid on duty value of imports? If you
15 have an excise tax today and if it doesn't prejudice
16 you against imports, to what extent would the removal
17 of this 10 per cent tax encourage industry growth?

18 MR. ECCLES: I think the answer there would be
19 again largely in the establishment of prices which
20 would be competitive to the consumer's dollar. As you
21 know, most of our companies in Canada are subsidiaries
22 of foreign companies, but they are Canadian incorporated
23 companies, and the principal brings out a 12-ounce
24 package of something and the market will stand a
25 dollar and a half price -- I think this is what I am
26 trying to get at -- we know that the market will stand
27 a dollar and a half price to be competitive. If we
28 have to put it out at \$1.75, the merchandiser will
29 immediately come up and say don't bother. That
30 immediately stops production of that item in Canada.



C-2

1 We also feel that the more items we can put
2 in, not having to have this tax affecting our ultimate
3 selling price -- that is what we are getting at -- the
4 tax effect on the selling price as against the
5 people who don't have the tax affecting their selling
6 price.

7 Take, for example, combination packages.
8 It is all inter-woven. We might, I believe, be able
9 to put that dollar and a half price in our industry
10 and run 50,000 units as against 10,000 units and we
11 can organize our production line. It all has an
12 effect on industrial expansion.

13 COMMISSIONER WALLS: One thing which I
14 don't understand -- perhaps this may also apply to
15 my colleagues -- was your statement that the excise
16 tax is charged on the selling price of imported goods.
17 Does this mean that the goods are warehoused and
18 ex-warehoused and the excise tax is the same as if they
19 were imported and excise tax paid on duty value?

20 MR. ECCLES: There is the ruling which
21 affects again cosmetics and drugs. We are always...
22 the first to get slapped by it. The Revenue
23 Department said that this was a test and all industry
24 would have to come under it eventually, and that was
25 a few years ago. If you bring in a package from an
26 associate company and a trade mark is involved -- I
27 will give you an example. We bring in a couple of
28 small items -- we can't produce them in Canada, so we
29 bring them in finished from one of our companies -- we
30 bring it in under a sales tax licence, and when we sell



C-3 1 it we pay the tax at the time of sale. Now, if I,
2 Ken Eccles, bought that same product within arms
3 length of that company I can pay the sales tax at the
4 time of import and the excise tax. An effort was
5 made under this ruling to bring it up. I think what
6 they had in mind was that all imports would eventually
7 have to pay excise tax on the selling price so they
8 wouldn't have to compete with the Canadian manufacturer.

9 COMMISSIONER WALLS: You mention towards the
10 end of your brief the criticism as to the right of
11 appeal in regard to these matters and suggest that some
12 arbitrary body should be set up. Don't you have that
13 in effect with the Tariff Board at the present time?
14 Can't you appeal to the Tariff Board?

15 MR. GILLIES: Yes, there is an appeal to the
16 Tariff Board, Mr. Walls, on questions of selling price.

17 COMMISSIONER WALLS: It is not only just on
18 selling price but on classification of a product, also,
19 definition of a product.

20 MR. GILLIES: Yes.

21 COMMISSIONER WALLS: If you have a borderline
22 product and you get a departmental ruling on it and
23 you don't agree with the departmental ruling, under the
24 Excise Tax Act you have a right of appeal to the Tariff
25 Board.

26 MR. GILLIES: Yes.

27 COMMISSIONER WALLS: I think you also used
28 the word that it would be costly. Would it be more
29 costly to take it before the Tariff Board than to take
30 it to any other body?



C-4

1 MR. GILLIES: The type of body which was
2 urged upon the sales tax committee was a body similar
3 to the Income Tax Appeal Board.

4 THE CHAIRMAN: I think the purpose of it
5 was that whereas classifications can be taken to the
6 Tariff Board, the matter of valuation under the Act is
7 a matter left to the discretion of the Minister and
8 therefore there is no appeal from that, and your
9 question is to bring some appeal into the Act to
10 establish the price at sale.

11 MR. GILLIES: Yes.

12 THE CHAIRMAN: There is a point I would like
13 to come to on this, and that is with regard to margins
14 or what is commonly called pyramiding, I think. I go
15 to your chart where you started with product A at a
16 dollar and product B, and one is subject to excise
17 tax and the other is not, and you come down to \$2.27
18 for product A and \$2.03 for product B. The point I
19 would like to put to you now is that a distributor in
20 the case of A gets 21.4 cents and in the case of B,
21 19.6 cents. In the case of B he gets 1.3 cents less,
22 the retailer in the case of B gets 5.9 cents less.
23 If the excise tax was removed, how is the distributor
24 and the retailer going to get by without raising their
25 margins? Are they making an exorbitant profit now?

26 MR. ECCLES: For 30 years anyhow the druggist
27 has always worked on a percentage of 33 $\frac{1}{3}$. If this
28 was another item he was selling at \$2.13, he would still
29 make a profit on it. We are trying to show here what
30 is happening on two items, what happens when it gets up



0-5 1 to the consumer's price. We have excise tax in here
2 which affects the distributor markups. That is our
3 selling price, \$1.21.

4 COMMISSIONER WALLS: I think the point that
5 Mr. Carter wants to find out is whether your
6 distributor and retailer will be satisfied with a smaller
7 margin of profit.

8 MR. ECCLES: They charged 33 1/3 per cent long
9 before excise tax was imposed.

10 COMMISSIONER BEAUVAIS: The distributors are
11 making more money and the retailers, too, and in the
12 end it is the consumer who pays.

13 MR. ECCLES: Yes. They might have an item
14 at \$20.00; they are still going to make a third on it.

15 THE CHAIRMAN: I wonder if they are. I believe
16 in our system of free enterprise, free competition,
17 that people come to what is a fair profit, and if they
18 come to a fair profit with those markups and you take
19 out the excise taxes, I doubt whether the distributor
20 and the retailer are going to be satisfied. If he is
21 not satisfied, he is obviously going to cut his costs
22 or increase his margins. Therefore I am always
23 curious whether there is the pyramiding in these goods.
24 One could believe there is if one accepts that the
25 margins will, in fact, stand.

26 MR. ECCLES: If this is a tube of toothpaste
27 and it is a dollar tube of toothpaste, he would sell
28 that at \$1.00, but this price would be less. The price,
29 the manufacturer's price, would be less than on this
30 one, because of the tax.



C-6

1 THE CHAIRMAN: Thank you.

2 COMMISSIONER PERRY: I would like to ask if
3 you have any further thoughts in detail on your final
4 recommendation, which is that any revenue lost by
5 repeal of these excise taxes be made up under the
6 general sales tax. In terms of a change in the sales
7 tax rate -- I am not saying this reflects on your
8 basic argument -- just practically, a change in the
9 sales tax rate to recoup revenue would have to be
10 a fractional one. I am wondering if it would be more
11 practical to use a more general tax to recoup the
12 revenue.

13 MR. GILLIES: This thought is based upon the
14 belief that your Royal Commission is perhaps most likely
15 going to be faced with a very serious study of the
16 sales tax, because it seems to us as citizens that it
17 is logically feasible to increase the basic rate of the
18 sales tax and possibly some variation of the general
19 manufacturers' sales tax has got to be made to provide
20 the increased revenues that are needed, and when and if
21 that is done, the fractional problem you mentioned would
22 not arise.

23 COMMISSIONER PERRY: Your thought is that
24 it has to be a general revision rather than a fractional
25 change in the rate?

26 MR. ECCLES: Yes. Perhaps another 1 per cent
27 sales increase. For all we know, from what I have
28 read in the press, there may be adjustments along that
29 line in corporation and personal income tax.

30 THE CHAIRMAN: What do you do with a shift in



1 the rates or level of sales tax? Some years ago
2 a sales tax committee recommended rather tentatively
3 that consideration should be given to change the level,
4 the manufacturer's level to the wholesaler's level, and
5 the cry went up throughout the nation that this would
6 be grossly unfair, if I remember. Do you still
7 support the manufacturer's level as an association?

8 MR. ECCLES: Of course, we have all said we
9 would like to have it -- we had it in here somewhere
10 and we took it out; it lets you see what tax the people
11 are paying -- on a retail basis. For example, there
12 is a list of products here which I asked people about,
13 and I am sure -- coming back to that, if I may, for a
14 second -- that you could take one hundred people and
15 ask them and they would not be able to pick the ones
16 with the excise tax on them. The sales tax, sure,
17 that has got sales tax on it.

18 THE CHAIRMAN: Forgetting about the excise tax,
19 putting them all at the sales level, I suppose one
20 could assess them at perhaps 10 per cent or 11 per cent,
21 of that order. Is that a practical method, do you
22 believe?

23 MR. ECCLES: I am sure it is as far as we
24 are concerned, because we wouldn't have to collect it.
25 If there are mechanics of collecting it at the retail
26 level, I think that is the fairest way of collecting it.
27 At least everyone knows what they are paying. I
28 believe that they did that on jewellery and watches,
29 they used to have the price in the store and one knew
30 there was excise tax on it. The consumer realizes



1 what he is paying.

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2 COMMISSIONER PERRY: I would just like to
3 ask a very leading question on this, the thesis that
4 is quite often put forward that there is an attempt under
5 these excise taxes to tax a luxury. I know the officials
6 in Ottawa pretty well, and they are not stupid. Frankly
7 they can recognize luxuries, as well as anybody else,
8 and if you make a ^{list of} real luxuries you will find that 99
9 per cent of them are not taxed, so I just question if
10 this is the basis any more of this kind of tax.

11 I think you come closer to it in this
12 point where you say that these items are taxed because
13 they produce revenue.

14 MR. ECCLES: Yes, we complain about the
15 tax, granted, but if everybody else was the same as us
16 we wouldn't complain. The same thing applies with
17 imports. We wouldn't complain if everybody with every
18 product does the same thing.

19 COMMISSIONER PERRY: It is rather an argu-
20 ment on equity, rather than an argument that luxuries
21 should be taxed.

22 MR. ECCLES: Yes, that is right, but I don't
23 think we actually used the word luxury in here, and
24 I have been very interested to hear it mentioned four
25 or five times, because we researched all the original
26 rulings, and all the Finance Minister's reports since
27 we have been taxed, and never once have we heard the
28 word luxury used.

29 COMMISSIONER PERRY: 1921 may be the last
30 time.



1 MR. ECCLES: Well, not since 1933 in the
2 Budget speeches. That term was never used, and we,
3 for that reason, left it out, and it is very interesting
4 to hear that word luxury used three or four times this
5 morning.

6 COMMISSIONER PERRY: As a former official
7 of the Department of Finance I would say that your
8 reading has been very perceptive.

9 MR. ECCLES: Can you tell me how anybody
10 can consider toothpaste as a luxury, any more than a
11 necktie? We need toothpaste more than we need neckties.
12 We just wear these because that is the thing to do.
13 We don't need them, but if we don't brush our teeth --
14 and we certainly need shaving cream and razors more
15 than we do a necktie.

16 COMMISSIONER PERRY: Don't let the necktie
17 people hear you say that.

18 MR. ECCLES: Well, maybe I am being silly
19 in mentioning a specific product, but there are things
20 we need less than we need toothpaste. It is just that
21 it is so haphazard in approaching these taxes. The only
22 reason it was removed on toilet soap, and it says it
23 right in the Minister's report, they couldn't tell the
24 difference between toilet and laundry soap, so they
25 took the tax off, and they couldn't find anything to
26 confuse with toothpaste so they left it on.

27 COMMISSIONER WALLS: While you didn't use
28 the term luxury tax, I thought you inferred it when you
29 made the comparison between mink coats and yachts.

30 MR. ECCLES: I didn't say luxury tax though.



1 COMMISSIONER WALLS: No, but you inferred it.

2 MR. ECCLES: Firearms aren't luxuries, and
3 now we have more holdups than ever before in the country
4 and they can buy their firearms without paying excise
5 tax.

6 MR. GILLIES: I think it was inferred by the
7 part on page 3 to which you referred, that we know
8 that the goods are taxed, although they are not luxuries,
9 because they are so commonly used, and it is felt that
10 that is spreading the load around, and in fact it is
11 the reverse of the inference that was taken.

12 COMMISSIONER WALLS: Well then, it was my
13 mistake in first using the term "luxury" then.

14 THE CHAIRMAN: No, I don't see that you need
15 to say that, Mr. Walls. Certainly I was seeking a
16 criterion to find progression in the matter of sales
17 taxes, and I can't think of any criterion other than
18 luxury. Perhaps I will before I have gone very far.

19 MR. ECCLES: Well, I think there is a reason
20 for some excise tax. You have brought up the term
21 "luxury", but we would like it understood that we are
22 not complaining so long as everybody has to face the
23 same music, and we have been definitely -- it is
24 a hard word, but maybe discriminated against over these
25 years. Well, it is the easiest thing to do. We have
26 always worked very closely with the Revenue Department.
27 As a matter of fact we helped them to work out this
28 ET,132. We helped them to find out how they can collect
29 the tax from various different types of distribution.

30 THE CHAIRMAN: Well, you have certainly made



1 your point very strongly to us.

2 COMMISSIONER GRANT: I must as a matter
3 of personal curiosity ask this. In paragraph 9 you
4 refer to the ignoble theory and history of excises-
5 the tax "tests the prosperity of the poor". Is this
6 a quotation that you have discovered somewhere in the
7 tax literature, or is it something that you have
8 produced yourself? It is a rather original one.

9 MR. GILLIES: I think that in the Victorian
10 days in Parliament somebody referred to excise as doing
11 that kind of thing. Who it was I don't know.

12 THE CHAIRMAN: Do you gentlemen have
13 something further?

14 MR. ECCLES: Well, you did ask a question
15 about, I think it was Mr. Walls asked a question about
16 having some proof perhaps that the incidence of the
17 excise tax had curtailed production, or had dis-
18 couraged the manufacturers from putting out certain
19 products. We have here a sealed explanation of the
20 situation by one of our companies. It is confidential
21 to the extent of the Board only, and we could submit
22 this. I don't imagine this would be submitted in evidence,
23 because it would have to be confidential to the Board
24 only.

25 THE CHAIRMAN: You may certainly submit it
26 in confidence, and we will treat it that way.

27 THE SECRETARY: It will be Exhibit No. 15.

28 EXHIBIT NO. 15: Sealed envelope
29 containing confi-
30 dential information.

MR. ECCLES: We can, if required, obtain others.



1 We instructed our members to submit this information
2 strictly on a confidential basis, and perhaps this
3 might help you along the lines of the question you
4 asked.

5 THE CHAIRMAN: Well, nothing further remains
6 but to thank you very much for coming here today, and
7 helping us with our job. We have got a long way to
8 go with regard to sales tax. We have only, as you
9 know, started on this task, but we shall be taking a
10 long road very fast if others like yourselves are
11 as well prepared with such good presentations.

12 I am sorry that Mrs. Milne was not here
13 to receive this. She turned up this morning, as
14 you saw, but shewas ill, so she had to take the day off
15 to get herself back to good health.

16 Thank you very much indeed.

17 MR. ECCLES: Thank you very much for the
18 opportunity of presenting this information.

19 THE CHAIRMAN: We will break for five
20 minutes.

21 ---Recess.
22

23 THE CHAIRMAN: Mr. Secretary, we have
24 Avon Products I believe. Would you introduce them
25 please?

26 SUBMISSION OF

27 AVON PRODUCTS OF CANADA LIMITED

28 APPEARANCES:

29 J. Biggia
30 I. Phelan
G.J. Szablowski



1 THE SECRETARY: Mr. Chairman, the Avon
2 Products of Canada, Limited, are represented this
3 morning by Mr. Szablowski, their attorney, and he will
4 introduce the other officers of the company who are
5 with him.

6 They have presented their brief, which I
7 would like to enter into the record as Exhibit 16.

8 EXHIBIT NO. 16: Brief of Avon
9 Products of
Canada, Limited.

10 MR. SZABLOWSKI: I would like to introduce
11 first of all our Vice-President, Mr. Biggia, and Mr. Phelan,
12 the Comptroller of the company. Mr. Phelan will
13 elaborate on the specific points raised in the brief.

14 THE CHAIRMAN: Yes. Mr. Phelan, you are
15 going to elaborate on this excellent brief we have before
16 us. Is that correct?

17 MR. PHELAN: If I may, Mr. Commissioner.
18 We have here on charts some material which has been
19 reproduced, and which will be submitted to the Secretary
20 in due course. First I should like to say how
21 astonishing this whole procedure is. I believe that it is
22 typical of our country that business and individuals
23 can stand before a Commission such as yourselves and
24 express their views, not with the expression of people
25 who are pleading, but with the attitude of people who are
26 making what we think is a just point.

27 You have read our material, and rather than
28 going over it again and enlarging upon it in just so
29 many words, we thought it would be helpful if we could
30 translate some of the attitudes that we have, some of the



1 approaches that we have, on this tax into chart form,
2 and with your permission I should like to make use of
3 some of these to illustrate the points that you have
4 since read in the tax.

5 I have here an example of the taxes
6 generated by the purchase of a cosmetic, using the
7 retail price as the yardstick on which the transaction
8 begins. In most provinces there is an addition of a
9 local sales tax, and we have used here, for illustration
10 purposes, the six per cent that applies in Quebec,
11 so that the price paid by the consumer is \$1.06, and
12 the base of course is the so-called retail price.
13 In addition, in this same cosmetic there are federal
14 sales and excise taxes, and these are computed on yet
15 another mechanical method, but on the same basis, so
16 that the price, excluding all sales taxes, and in effect
17 what the manufacturer, or distributor, or retailer, or
18 however he goes, is the price that is shown at the
19 bottom here.

20 With your permission then we will proceed to
21 the next stage, the composition of the federally
22 authorized discount. These are terms I am sure,
23 gentlemen, that are familiar to you, particularly the
24 ones who served on the Sales Tax Committee. This
25 particular retail price to the consumer now is the
26 price prior to the introduction of the local retail tax.
27 The discount authorized by Departmental Circular ET 132,
28 to which reference has already been made this morning,
29 developed a discount in terms of pennies or cents of
30 47 and a fraction, so that the value for federal taxes



1 becomes 52 cents. The amount of the federal taxes,
2 computed at the current level, is 9 and a fraction cents,
3 and of course, as you are well aware, this is an
4 example of the unlicensed wholesale plants' procedure.
5 Depending on the type of merchandising that a company
6 does there are 26 individual methods by which this
7 wholesale price or value for tax can be established.
8 Here is an illustration of the results of an arbitrary
9 change in the authorized discount. As you gentlemen
10 know, or you may be familiar at this moment with,
11 there are two discounts applicable to our particular
12 type of direct selling business in the cosmetic field.
13 At the moment they are $33\frac{1}{2}$ and 21 per cent.

14 Just as an example of what could happen
15 if there was an arbitrary decision made at Departmental
16 level that we would just change these discounts and have
17 this $33\frac{1}{2}$ per cent, and just reverse the figures,
18 and make this 12 per cent, the tax base then becomes
19 58 cents, rather than the 52 cents that formerly pre-
20 vailed.

21 Now, assuming the same rate of taxes,
22 the actual tax payable would be 10 cents and a fraction,
23 rather than 9 cents and a fraction, and someone will
24 say, "Well, why did you elect the 12 per cent rather
25 than the 21 per cent?". But at the moment what
26 authority, what basis, do the Departmental members
27 have, the diligent men that work in the Department have,
28 for establishing 21 per cent as a reasonable figure?
29 I know that a great deal of effort is made by the
30 representatives of the Department to establish what seems



1 to be a fair percentage. On the other hand, is the
2 knowledge available to the Department that complete
3 that it can tell whether 21 per cent or 20 or any other
4 factor is the correct one?

5 Proceeding from that point --

6 MR. SZABLOWSKI: I want to add that it is
7 exactly from this kind of evaluation that there is no
8 appeal. There is no appeal at all from this type
9 of arbitrary judgment.

10 MR. PHELAN: Proceeding from that point then,
11 as you are aware from our presentation, we have
12 suggested an alternative, and this is not a unique
13 thought, or an original one, as I am sure you are
14 fully aware. It has been common practice all over
15 the world, and there are only two exceptional countries.
16 One is Finland, to the best of our knowledge, and the
17 other is ourselves. We have suggested that there be
18 applied rather a different type of tax basis, or
19 approach to the tax, and that is assuming a complete
20 reversal now of the figure that appeared on the pre-
21 ceding chart but one. Let us take the 90 cents that
22 was the basis for the manufacturers' sale, and use
23 it up here. We would suggest that there be added to
24 this the federal tax on sales, and we have computed a
25 rate which, by coincidence, happens to be 10 per cent,
26 which would hold substantially the same tax on the same
27 basis as the present method of authorized discount.
28 Then, having established the price with no provincial
29 sales taxes, on this would be added whatever particular
30 rates applied in the area where the sale is made.



1 We have used 6 per cent to make it comparable to
2 the one before, and we come to a price paid by the
3 consumer substantially the same as presently paid. This
4 is the theoretical aspect of this, the approach let us
5 say in respect of the law, but in actual practice
6 what happens as we would see it would be that manu-
7 facturers, or rather retailers, would translate this
8 into a combination of taxes, and this in itself is not
9 a common practice throughout the world.

10 Here is again our retail price translated
11 into the nearest penny at 91 cents, the precise figure
12 being over here. We have combined for this purpose
13 the two taxes at precisely the same rate, 10 and 6,
14 and produced in effect the same tax revenue for whatever
15 taxing authority was interested, and the price paid by
16 the consumer remains substantially the same as at present,
17 with the proportion of taxes being made on this
18 simple mechanism, rather than the one that has been
19 established before.

20 THE CHAIRMAN: Excuse me. If there were
21 no excises that 15 per cent or 16 per cent would come
22 down to what figure?

23 MR. PHELAN: In this province it would be
24 6 per cent.

25 THE CHAIRMAN: No excises, but continuing
26 sales taxes?

27 MR. PHELAN: I beg your pardon. I misread
28 your question. It would be approximately 11 per cent,
29 between 10 to 12 per cent, depending on, I would believe,
30 the rate applicable to the cosmetic.



1 COMMISSIONER WALLS: Wouldn't it only be
2 about $2\frac{1}{2}$ per cent difference? Is it not a fact that
3 your excisetax is equal to about one-quarter of the sales
4 tax?

5 MR. PHELAN: The excise tax is equal to
6 one-quarter of which sales tax?

7 COMMISSIONER WALLS: Of the federal sales
8 tax?

9 MR. PHELAN: No, the two taxes are within
10 a fraction of each other. One is 11 per cent and the
11 other is 10 per cent.

12 COMMISSIONER WALLS: No, the total revenue I
13 mean. So I think your tax would have to be a little
14 higher than you say?

15 MR. PHELAN: That is quite possible. I
16 thought you were talking in terms of the rates, but
17 you were talking in terms of the yield?

18 COMMISSIONER WALLS: That is right.

19 MR. PHELAN: That is right. I am sorry.
20 Are there other questions on these?

21 THE CHAIRMAN: I think the answer you gave
22 to me is correct so far as it relates to your particular
23 products, is it not?

24 MR. PHELAN: Precisely, yes.

25 COMMISSIONER BEAUVAIS: And you would suggest
26 that this tax would be collected by the federal
27 government?

28 MR. PHELAN: We don't suggest that whatsoever
29 sir. We have been at pains to point out the
30 procedure which we think this should be established, and



1 if you will recall the final pages of our submission,
2 we have inserted there a suggestion which we think
3 is applicable, which we think is easy to implement,
4 and which is not uncommon again in many other places.
5 Naturally, there are some advantages to be derived
6 from this, and these, as we see them, are merely
7 a restatement of those things which we have already
8 referred to in our submission, and that is the
9 elimination of taxation by regulation. This is
10 anathema to the business, as you can appreciate.

11 There is again a pyramiding of taxes,
12 and these figures demonstrate this to some extent,
13 Mr. Perry. They follow the question you asked the
14 preceding group. Of course, the thing that is question-
15 able in the present procedure, the matter of taxes
16 being hidden in the selling price, we don't for a
17 moment pretend that this particular situation of hidden
18 taxes applies only in the case of cosmetics. At the
19 present time it applies in many things. I can think
20 of gasoline, and many other situations where this
21 is applicable, but the question of hidden taxes is one
22 I think we should regard with some hesitation.
23 Advantages on the positive side are that it would facili-
24 tate the price-setting procedure, which is a matter
25 for a company, not only ourselves, but for all.
26 Perhaps Mr. Biggia later will talk on this subject.



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1 And in respect to the audit inspection procedure, this
2 offers a much more simple and facile and satisfactory
3 way to take care of that obligation on the part of the
4 government. And who benefits in all of this?
5 Naturally, the consumer, the retailer, the manufacturer
6 and all levels of government.

7 THE CHAIRMAN: Thank you, indeed, Mr. Phelan.
8 Do you have any views on retail level or as to the
9 manufacturers' level? I am led to believe that there
10 is a loss in collection at the retail level, and if
11 one increases the collection at the retail level there
12 is an increase in cost.

13 MR. PHELAN: I believe you are referring to
14 the suggestion of collecting it at the wholesale level
15 some years ago. At that particular time the number
16 of sales involved in the retail tax field was nothing
17 like the number that is involved today, and I believe
18 it is a matter of time at least until there is one
19 other.

20 Now, the business of taxes applicable on
21 retail sales is an accepted fact all over the country,
22 and the question of collection has been refined by the
23 time and energy that many people have had to devote to
24 it. We see very little trouble now in the collection
25 of this type of tax at all levels, and since the
26 provinces have satisfied themselves they are getting all
27 of the revenue but some very little section, I would
28 see very little trouble in extending this tax to this.

29 I believe I recall a speech made by the
30 Director of Taxation in the Province of New Brunswick at



E-2 1 the Canadian Tax Foundation, perhaps not last year
2 but perhaps the year before, in which he spoke with
3 a certain amount of pride about the effectiveness
4 of his tax collection system, and I recall the
5 gentleman from Saskatchewan making the same type of
6 comment, and I recall Mr. Clark pounding the table
7 and saying that this was one tax he was going to
8 see exercised to the fullest.

9 THE SECRETARY: I would like to enter a
10 copy of this submission into the record as Exhibit
11 No. 17.

12 ---EXHIBIT NO. 17: Supplementary Charts
13 of Avon Products of
14 Canada, Limited.

15
16 COMMISSIONER WALLS: You mentioned in
17 your closing remarks that you would recommend that
18 this retail sales tax be carried out, but you didn't
19 say how. Is it your recommendation that it be done
20 so by the provincial governments and the federal
21 government should completely forego the administration
22 of the retail sales tax? Do you think that they
23 would want to be in a position to audit it or
24 completely forego it?

25 MR. PHELAN: I don't believe I could answer
26 what the federal government's attitude be. However,
27 it would seem to me that the adequacy, the satisfactory
28 efficiency of the audit procedures now established in
29 the provinces should be enough for the federal
30



E-3 1 government. To some extent I imply in your question,
2 perhaps rightly, perhaps wrongly, that you feel that
3 the collection mechanism of the federal government is
4 perhaps more efficient than that of the provinces.
5 That may be the case.

6 COMMISSIONER WALLS: I assure you you are
7 taking your own interpretation in that.

8 MR. PHELAN: Perhaps I am. But I am sure
9 the administrative effectiveness is not restricted to
10 one field.

11 COMMISSIONER WALLS: You really interpret
12 the provinces as being the collection agency.

13 MR. PHELAN: Yes.

14 COMMISSIONER WALLS: Because of the fact that
15 the provinces may not be willing to cooperate in a
16 joint retail tax in that they feel that the federal
17 government is invading a tax field which they have come
18 to look upon as their own private preserve, what do
19 you ^{recommend} / as an alternative to the retail level? Have
20 you given consideration to the wholesale level that
21 Mr. Carter was discussing previously or to the value
22 added tax? Have you given any consideration to any
23 of the alternatives in case the provinces are not able
24 to join the federal government?

25 MR. PHELAN: Yes. One of the problems that
26 the modern tax structure has is exemplified under
27 paragraph 13(1)(32); that is to say, the complexity of
28 business is so great that 26 individual arrangements
29 had to be made to determine an adequate value for tax
30 at the manufacturers' level. Now, without having made



E-4 1 a complete study as Professor Dhu has made and others,
2 I am convinced that there would be perhaps twice as
3 many as twenty-six different types of regulations would
4 have to be written to take care of the way business
5 handles these wholesale enterprises.

6 To place it in another way, the question of
7 regulation is difficult since the base is that of
8 the manufacturers' level, that is today. We see no
9 difference whatsoever in broadening the base; we think
10 the complexity would be just as great. But there is
11 one base that doesn't vary anywhere, and we think that
12 many other countries have come to this conclusion and
13 they have established as a satisfactory base the
14 retail level; and here there is no question of what is
15 involved, the price/^{is}known, it is the price from the
16 wholesaler, the manufacturer or the jobber to the
17 person who consumes it.

18 COMMISSIONER WALLS: But isn't it the case
19 that where provinces or states have invaded that field
20 it has necessitated a much higher level of retail tax
21 than is in effect elsewhere?

22 MR. PHELAN: In the United States there is a
23 federal excise tax on cosmetics; I believe the current
24 rate is 10 per cent. And there are 50 per cent of
25 states which are in the retail tax field. In addition
26 to these 25 states there are, I believe, 100 communities
27 with another rate of tax over and above, and these are
28 quoted in some places as infractions and the result is
29 satisfactory.

30 I would be glad to submit the names of those



E-5 1 states and towns and cities which are involved in this
2 type of taxation.

3 COMMISSIONER WALLS: I believe you quoted
4 it in one of your appendices..

5 THE CHAIRMAN: No, that is another brief.

6 MR. PHELAN: No, that is one that doesn't
7 apply to us.

8 COMMISSIONER PERRY: I wonder if you
9 could give us the names of the national governments
10 which levy a general retail sales tax. Offhand,
11 I can't think of a national government which levies
12 a retail sales tax. I may be wrong. The
13 Chairman points out that France does. They certainly
14 don't in the United Kingdom or in the States or in
15 Australia or Germany.

16 MR. PHELAN: You probably are quite right,
17 Mr. Perry, and I can't answer the question; our
18 research isn't that thorough. Mr. Szablowski
19 has some material.

20 COMMISSIONER PERRY: I should know that
21 myself. It is just for our information.

22 THE CHAIRMAN: Mr. Phelan, I have one
23 question. When the change of level was suggested in
24 the sales tax the objections to it, I think, were
25 primarily based upon a change in the incidence of
26 taxation rather than the reasons that you have pointed
27 out. If I recall this correctly, the small
28 merchants indicated that under the proposal their
29 customers would be bearing more tax than they were
30 presently bearing. This was concerned with markups,



1 applying to the goods they sold as against that applying
2 to the goods sold by larger merchants. If, instead
3 of going to the wholesale level we moved to the retail
4 level, would that objection still not apply?

5 MR. PHELAN: I would doubt it very much,
6 Mr. Carter, for this reason, that there has been a
7 considerable evolution in public thought and attitude
8 to sales taxes since that submission was made, and I am
9 sure that the experience of Ontario almost two years ago
10 is typical. For the first three or four months the
11 entire populace, the whole buying public, was very
12 sensitive to the retail sales tax. I believe now it
13 is a way of life, and the primary need for revenue which
14 all governments have was resolved in respect that sales
15 taxes can be established by appropriate rates in
16 particular businesses where the establishment of the
17 particular rate which the government needs could be
18 worked out on that basis. The public would recognize,
19 as it has recognized elsewhere, that the purchase of
20 that particular type of product has a contingent problem
21 with it, the payment of an extra tax.

22 We subscribe wholeheartedly with the views
23 and support them unreservedly of the Toilet Goods
24 Manufacturers' Association. We believe that the
25 imposition of a basket type of tax is inimical to the
26 whole way of doing business. I would have the same
27 view as to other types of taxes in industries, but I
28 am speaking of cosmetics. If it is not possible
29 to have the excise tax on cosmetics flattened out and
30 recovered in some adjustment in the sales tax, then we



E-7 1 feel that this is the way to have this tax brought up,
2 collected and pointed out to people.

3 COMMISSIONER GRANT: Mr. Phelan, as a
4 merchandiser, what effect do you think that a combination
5 of federal sales tax and excise tax, with the federal
6 sales tax collected at the retail level, would have on
7 the consumer? It would have to be shown as a separate
8 tax, and then there would be the federal tax and there
9 would be a provincial tax, and any person buying an
10 article would see this tax added. At the present time
11 the federal tax is a hidden tax. What do you think
12 would be the effect on the consumer if he was faced with
13 an account from the retail store showing these taxes?

14 MR. PHELAN: I would think, Mr. Grant, the
15 first thing he would do is raise particular hell, he
16 really would, and this is one of the devilish things
17 about our present sales tax. It is devious, and to a
18 certain extent, if I may use the term, a harsh one,
19 perhaps a little dishonest, perhaps the purchaser is
20 inclined to complain of the price of the merchandise as
21 being the responsibility of the sales person or the
22 store or whatever it is, when in substance a not
23 inconsiderable proportion of the cost is not the
24 merchant's problem whatsoever.

25 I believe at the outset, to answer your
26 question specifically, people would express a great
27 deal of astonishment and annoyance at such a situation,
28 and there may be some adverse effect on sales. As has
29 been the custom in the past, almost inevitably two
30 things would happen: either at the time of the next



E-8

1 budget, federal or provincial, there would be some
2 adjustment of this if the uproar was sufficient, or
3 the consumer would adjust himself or herself and
4 carry on.

5 COMMISSIONER GRANT: I remember when the
6 Gasoline Tax Act came into existence, I think it
7 had to be shown separately on automatic computers.
8 Now I believe that has been abandoned and now you see
9 only the end price.

10 COMMISSIONER PERRY: I think there is a
11 variety of practices. In some provinces it has to be
12 shown, and in others dealers are prohibited from showing
13 it.

14 MR. PHELAN: Yes, this relates to the local
15 area.

16 I have another thought that I would like to
17 express in addition to this, Mr. Carter.

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1 You will note that throughout this proposition
2 we have not suggested any change in the tax revenue.
3 The ultimate results will be substantially the same,
4 and having said this we want to repeat that we are
5 very much in favour of what has already been said this
6 morning. That is to say that there be some
7 adjustment of the excise features in the tax, but what
8 this proposal has -- we don't think that it is an
9 unreasonable suggestion, is the question of collection
10 and computation of tax is going to be much more
11 simplified. There already exists in all provinces
12 a mechanism for the collection of taxes at retail
13 levels, with the exception of two.

14 One of the exhibits we should like to offer,
15 although we don't have thirty-five copies, Mr. Secretary,
16 is a facsimile of an I.B.M. card, which is the
17 mechanism Avon uses in establishing the retail taxes
18 applicable to each product in each province, and the
19 federal taxes applicable to those products.

20 Now, as part of the additional submission which
21 has been filed this morning there is a facsimile of
22 the card on the back page, but for purposes of
23 illustration I should like to place before you an
24 enlarged version of this sheet.

25 COMMISSIONER WALLS: But is it not a fact
26 that you are dealing with a highly integrated company,
27 inasmuch as you are one of few in your field which of
28 necessity has to collect the provincial retail tax
29 as well as the federal taxes?

30 Mr. PHELAN: We are all of those things. There



F-2 1 are 80 columns on an I.B.M. card, and we are extensive
2 users of the electronic equipment, and this is not a
3 particular endorsement of I.B.M. as opposed to any
4 other, although we like their equipment. Of the 80
5 columns there are 28 columns used exclusively for the
6 purposes of determining the tax collected by the
7 governments. In substance let us say 28/80ths of
8 the cost of our machinery and the services applicable
9 to it are used exclusively for non-business purposes.
10 Now, I think that every business man has an obligation
11 to do his fair share toward the collection and
12 determination of taxes, but we do think that we are
13 being imposed upon somewhat by this proposal.

14 THE CHAIRMAN: In your costing you would have
15 80 minus 28 columns if there were no sales taxes?

16 MR. PHELAN: Right.

17 THE CHAIRMAN: Therefore, might it not be said
18 that the 28 columns are superimposed on the others,
19 and if that is the case, should we not be concerned with
20 the marginal cost, rather than the average cost?

21 MR. PHELAN: You may be right, Mr. Carter. I
22 would like to make a further point though, that if the
23 28 columns, let us say half of them were made available
24 to us, would we not be able to use those for more
25 effective merchandising, and more effective control of
26 our own operations?

27 COMMISSIONER GRANT: Does the machine permit
28 the addition of more than 80 columns?

29 MR. PHELAN: No, it does not. The card
30 capacity is 80 columns.



F-3

1 THE CHAIRMAN: Well Mr. Phelan, then you
2 have got to go to a computer next and add more columns,
3 or the equivalent thereof.

4 MR. PHELAN: We are already in the computer
5 business. We have a 1401 and a 1402, and 1403,
6 and that is on order, and these will be with us within
7 months.

8 Why are we here? Not the most important
9 reason is to satisfy the audit requirements of not
10 one but nine taxing authorities, and not one of these
11 seems to be happy with the exclusions, or the allocations
12 of the other. One wants soap, which was a sensitive
13 area discussed this morning, and one wants something
14 else. One does not want soap. The federal government
15 wants them all, but because they don't have the
16 mechanism for the determination of taxes in the
17 soap makers' area as to distinguish between toilet
18 soap and laundry soap, they have thrown up their
19 hands and said: Well, I guess we will get out of
20 soap in so far as excise is concerned. The whole
21 question has been one of expediency. "What can we
22 do, and who will howl most"? has been the way it
23 has been looked at, or perhaps I should say "Who
24 will howl least"?

25 COMMISSIONER WALLS: You are doing a good job.

26 THE CHAIRMAN: Well, I hope the lack of
27 I.B.M. columns is not stopping you from exporting to
28 the States, where you might have another thirty
29 columns required?

30 MR. PHELAN: Well, I realize there is a little



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1 facetiousness in your statement. We are not exporting
2 to the States, but we are to the United Kingdom,
3 Germany, and very largely to Australia. We are doing
4 our honest bit with respect to export trade. A not
5 inconsiderable factor is cost. If we could get
6 costs down where we could manage it a little more --
7 we don't pretend that excises and taxes are our whole
8 problem, but if the cost of collection of taxes could
9 be put on a more businesslike basis, and afterall we
10 are merely businessmen looking for a fair shake in
11 the collection of taxes, we feel we could pass some
12 of this on to the consumer, to the importer in
13 Australia and elsewhere, and as a matter of fact to
14 business in Canada generally.

15 THE CHAIRMAN: Well, I think this has been
16 very interesting. I think I have said previously
17 that I have no regard for the manufacturers' level of
18 tax. As a result of previous work I did I came to
19 the conclusion that it was a fairly primitive level,
20 and accordingly I thought that at some suitable time
21 there should be a shift. I have never concluded as
22 to which is the best level to shift to, but your
23 representation as to the retail level has been most
24 interesting indeed.

25 I think we have exhausted all our questions.
26 Is there anything more that you gentlemen would like
27 to say to us?

28 MR. PHELAN: I should like to make just one
29 note, since I promised that I would make it, and that
30 is that the proper description, we think, of the whole



F-5 1 field of excise taxes federally and sales taxes
2 provincially, to paraphrase the words of a well known
3 Canadian author, is the "Unknown Country".
4 Incidentally, this is a term used by C.C.H., whose
5 representative is here, and to whom I defer.
6 Incidentally, I would believe the reason why the
7 author of this remark did make it is because the whole
8 thing is in the hands of so many people, all of whom
9 is a professional in the business of establishing what
10 is the right basis for tax. You talk to a man in
11 the Excise Division, and he knows all about the right
12 basis for this tax. You talk to a man in any
13 Division, talking of the federal government. He is a
14 professional on this basis, but nobody gets all of
15 these people together and says: "Gentlemen, let's
16 establish par for sales taxes." Everybody is
17 developing revenue, because he is responsible for
18 a Division, or Section, or whatever it is. All we
19 are looking for is "Let's get all the interested parties
20 together, whether they be provincial, or dominion
21 authorities. Let's talk this matter over you see,
22 consult with industry, who are really the professionals
23 in this business, and then let's come up with a really
24 fine solution, and not one which is the result of
25 expediency", a term which I am sure you have heard, to
26 your great irritation, a great many times.

27 MR. BIGGIA: Gentlemen, on behalf of our
28 company I would like to state for the record how
29 appreciative we are to have this audience. Regardless
30 of outcomes we think it is wonderful to see the



F-6 1 democratic process, and have the opportunity to be
2 heard.

3 Heretofore we have presented our case
4 similarly in our own instance, and that of the T.G.M.A.,
5 of which we are a member, in Ottawa many times. It is
6 refreshing, it is wonderful to have a group such as
7 you represent to hear us, and to be able to talk
8 together about problems that are not only the concern
9 of an industry, but they are the concern of the
10 consumer, who are the people of the country.

11 Gentlemen, we sincerely appreciate it.

12 THE CHAIRMAN: Thank you for your kind words,
13 Mr. Biggia. We thank you indeed for appearing today,
14 and gentlemen it is only by this kind of assistance
15 that we are going to succeed in contributing to the
16 improvement of Canadian tax laws.

17 Thank you very much indeed.

18 We will break off for five minutes.

19 ---A short recess.
20

21 SUBMISSION OF THE CANADIAN RESEARCH
22 COMMITTEE ON TAXATION

23 APPEARANCES: Mr. R. Perron
24 Miss S. Walton
25 Mr. H. Payne
26 Mr. B. Sevak

27 THE SECRETARY: Mr. Chairman, we have now
28 with us officers of the Canadian Research Committee on
29 Taxation. Mr. Ben Sevak is Chairman. He will speak
30 to the brief and introduce the other officers.

I will enter this brief of the Canadian



F-7 1 Research Committee on Taxation as Exhibit No. 18 in
2 the record.

3 ---EXHIBIT NO. 18: Submission of Canadian
4 Research Committee on
Taxation.

5 THE CHAIRMAN: Thank you, Mr. Secretary. Mr.
6 Sevack?

7 MR. SEVACK: Mr. Chairman and gentlemen,
8 first I would like to introduce the members of our
9 delegation.

10 Mr. R. Perron, Director of the Henry George
11 School of Social Science; Miss S. Walton, Dean of the
12 Henry George School of Social Science; Mr. H. Payne,
13 Office Manager of Canadian Vickers Limited; and myself,
14 Ben Sevack, President of Tripax Stamping and
15 Manufacturing Company Incorporated.

16 THE CHAIRMAN: Thank you, Mr. Sevack.

17 MR. SEVACK: Our Committee is a non-profit
18 organization, and the members devote their time without
19 any remuneration whatsoever for the study of taxation,
20 economics, and taxation as it affects all aspects of
21 taxation, municipal, federal, school taxes, provincial,
22 and so on.

23 I presume that you have all read the brief,
24 so perhaps you could start by shooting questions at
25 us?

26 THE CHAIRMAN: Fine Mr. Sevack. We would be
27 very glad to start in that way. We have read your
28 brief with considerable interest and in discussing it
29 it left one or two matters, at least to me, unsatisfied,
30 and requiring questions.



F-8 1 You advocate tax on land rent. I myself am
2 concerned about the practicability of such a matter
3 when one considers that the total amount of taxation
4 required by all levels would be in the neighbourhood
5 of, I believe, \$12 billion. Perhaps eleven to twelve
6 billion dollars, and I take it that your remarks are
7 intended to be valid in relation to such a huge sum
8 of money.

9 Can you bring your submission to us down to a
10 level where I can understand it a little more clearly,
11 and which has regard particularly to how one would
12 assess and collect in this manner?

13 MR. SEVACK: It is very difficult to see whether
14 we can collect those \$12 billion without a proper study
15 of the land assessment, and a study of the national
16 resources of Canada. It may seem that it is impossible
17 to collect this amount, but I believe a few years ago
18 the State of New York University made such a study, and
19 I think that where we collect \$12 billion they collect
20 something like \$80 billion. They found that using
21 all the information that they could gather, they had
22 to make equalization figures for the different land
23 assessment practices in the various States and
24 municipalities, I am not quite too sure of the exact
25 figures, but I think on a very conservative basis they
26 assumed that they could collect something like \$28
27 billion from land rent alone.

28 THE CHAIRMAN: In the State of New York?

29 MR. SEVACK: No, this is in the United States.
30 It was made by the University of the State of New York.



F-9 1 They didn't take into consideration, I am not too sure
2 about whether they took into consideration national
3 resources, but on the point of national resources it
4 is a known fact that the Texad oil millionaires, the
5 owners of the mineral rights, collect more than the
6 Texas State annual budget of taxes by many times.
7 I am not sure how many, but it is a figure in excess
8 of the annual budget of the State of Texas.

9 THE CHAIRMAN: I am not sure how you would
10 apply it. Would this tax be levied as property taxes
11 now, of course restricting one self to the value of
12 the property. I presume it would be imputed income
13 valuation of the property as opposed to improvements?

14 MR. SEVACK: No. Generally property tax is
15 considered as a land tax and improvement tax. When we
16 say land tax we mean strictly a tax on the land,
17 without any improvements whatsoever. Now, the tax
18 is based on the economic rent, not on the rental value
19 because theoretically if the land is not used there
20 is no rental value. That is the failing of the
21 annual value system which they have in England to a
22 large degree, and which the City of Montreal is
23 considering right now, that the person who holds his
24 land out of use pays no tax.

25 THE CHAIRMAN: I suggested the imputed rent,
26 which I think is the best measure of economic rent,
27 is it not?

28 MR. SEVACK: Yes. The price of land, actually
29 the purchase price, or selling price of land, is the
30 capitalized annual rent. You can work backwards from



F-10 1 the commercial price of land at the going rate of
2 interest, and the assessors are presently assessing
3 land separately from buildings. In the City of
4 Montreal they are showing their assessments separately.
5 They combine it on the tax bill, but on the actual
6 assessments they do show the land separate from the
7 buildings. So if the City of Montreal can assess land
8 separately, there is no reason why the rest of Canada
9 couldn't be assessed in such a way.

10 COMMISSIONER WALLS: If you get out into rural
11 areas, and you assess land based on sales where there
12 is an area of increased urbanization, is that assessment
13 not in effect a fictitious value as far as the actual
14 rental value of it as far as farm land is concerned
15 shall we say, because it is based on speculative sales?

16 MR. SEVACK: Yes, the sales price is often
17 boosted by speculative sales value, but if land were
18 taxed properly it would diminish, if a hundred per
19 cent of the annual rental was taxed there would be no
20 speculation except to a very, very minor degree between
21 assessments. If less than a hundred per cent were
22 taken it would reduce speculation considerably. There
23 would be some room for speculation if say 50 per cent
24 of the rental value were taxed. As far as taxing
25 farms, I can see what you are driving at. The poor
26 farmer is going to be taxed out of his farm. Farm land
27 as such should not be taxed on the same basis as
28 urban land. Farm land which has been sold to a
29 speculator and is still taxed as farm land under the
30 Act -- farm land should be taxed in the same way as



1 any other natural resource. The most fertile land
2 would pay the highest tax per acre, or whatever it is,
3 and the least fertile land would pay no tax.

4 COMMISSIONER WALLS: Would you base that on
5 the productivity?

6 MR. SEVACK: No, on the fertility.

7 COMMISSIONER GRANT: You would disagree then
8 with the system which is being followed now by
9 appraisers in connection with the Estate Tax Act for
10 instance?

11 MR. SEVACK: Well, I am not too familiar with
12 the Estate Tax Act. I don't know if anybody else in our
13 group is.

14 COMMISSIONER GRANT: Well, it is their
15 practice that a farm, to take Mr. Walls' example, a
16 farm is adjacent to a subdivision, then they will
17 appraise that part of the farm that is adaptable for
18 subdivision purposes on the basis of its commercial
19 value for subdivision.

20 MR. PERRON: Which is in effect diminishing
21 speculation, which is a good thing. When they do
22 that they prevent that estate from speculating, because
23 actually it has subdivision value, and the estate
24 changes hands, and the next day it is sold for
25 subdivision at a very high profit. The tax that we
26 are proposing also has an aim to diminish speculation,
27 so that aspect of the Estate Tax Act meets our
28 requirements.

29 COMMISSIONER GRANT: Well, I understood the
30 previous speaker to say that you would value it only



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1 as farm land, and not for its intrinsic value.

2 MR. PERRON: Well, in the Niagara Penninsula,
3 where good farm land is being taken away by speculators,
4 whereas if you had proper land evaluation this wouldn't
5 take place, because right now they are hold it for
6 speculation, and right now a lot of good land between
7 the urban centres and the farm land is just held idle.
8 You can put this in the proper context, that this
9 taxation system will help farming.

10 MR. SEVACK: You see, we lose a lot of
11 productive farm land due to speculation, due to people
12 holding it and buying for speculation. It may not
13 be used industrially or otherwise for urban development
14 for fifty years or so, and in the meantime it could
15 be farmed. Maybe the Ontario government should look
16 into it. The Niagara Penninsula is very good farm land,
17 and as you say this is farm land and we can't
18 industrialize it.

19 COMMISSIONER WALLS: Well, California and
20 a couple of other states that followed them this fall,
21 passed a Statute for voluntary zoning, that if you held
22 this land and sold it for a purpose other than farming,
23 then you are penalized, much the same as a capital
24 gains tax.

25 MR. PERRON: As a matter of fact California
26 uses land value taxation for its irrigation system.

27 MR. SEVACK: As a matter of fact the success
28 of the California fruit industry is solely to this
29 method of taxation, because prior to the institution
30 of the land value tax for irrigation purposes, not



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1 everything, just for irrigation, they had these large
2 ranches in California and they were taxed under our
3 present system, on their improvements. Their
4 orchards, buildings, and so on, with the result that
5 a lot of the land was not used, and was just held by
6 these large owners. When they introduced the land
7 value tax for irrigation purposes these large estates
8 broke up. It didn't pay them to hold this land out
9 of use any more, and it paid people to farm, and that
10 is the whole idea, that the tax should encourage people,
11 and not discourage people to farm, or produce.

12 THE CHAIRMAN: You agree with labour and
13 capital taxation, basing the burden on economic
14 principles?

15 MR. SEVACK: We don't know whether we could.
16 We are not sure, let us put it that way, that we could
17 produce enough revenue for government. I mean,
18 government is a big spender today, so we are not sure
19 that we could produce enough revenue from land value
20 taxes and royalties on mineral resources, but we
21 should take this first, and add any additional taxes
22 after we have absorbed the maximum.

23 THE CHAIRMAN: I suppose this thought must
24 have occurred to you, namely that our total taxation
25 is something in excess of 25 per cent of the gross
26 national product of Canada. The gross national product
27 is composed of our labour, capital and economic rent. If
28 we dismiss the first two, we would obviously be charging
29 the third element with a very heavy charge.

30 MR. SEVACK: Do we include economic rent in the



F-14 1 gross national product, and do we include it fully?

2 THE CHAIRMAN: Well, I think we must.
that

3 Considerable of the values/go in there are things that
4 come out of the land.

5 MR. SEVACK: A lot of land is sold and the
6 capital gain is not considered income in the normal
7 sense. I don't think it is considered part of the
8 gross national product.

9 MR. PERRON: Mr. Chairman, there is an
10 intrinsic difference between economic rent and labour
11 and capital. Labour produces by its own exertions.
12 Capital produces by its own exertions. The land
13 produces for the land owners. What we are suggesting
14 is that it reverts to the community.

15 COMMISSIONER PERRY: I wonder if we could just
16 go through your brief in a little more detail.
17 Paragraph 16 rather struck me, mainly in the use of
18 the word billions of dollars. I don't think in fact
19 these capital expenditures do add up to billions of
20 dollars every year. Perhaps over a period of years
21 they do, but in fact I think millions would be a closer
22 statement, for annual expenditure.

23 MR. SEVACK: Yes, probably millions. Billions
24 of dollars of total capital investment, but it is ---

25 COMMISSIONER PERRY: Perhaps taking all
26 governments of Canada in a year, and including all
27 highway construction, school construction, and all
28 social capital expenditure, you would come to a figure
29 which might be billions in the sense of being two
30 billion, or 2½, or something, but I doubt if the federal



F-15 1 government alone accounts for billions.

2 MR. SEVACK: Well, regardless of whether it
3 is billions, millions, or even thousands, it still
4 creates land value.

5 COMMISSIONER PERRY: It is just a matter of
6 accuracy.

7 MR. SEVACK: Yes.

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1 COMMISSIONER PERRY: Then the thing that has
2 always intrigued me about the Henry George approach
3 is that it may have developed during a period when
4 it was quite obvious that the main impact of a
5 growing society was on land values, and I am just
6 wondering if perhaps the time hasn't come to update
7 Henry George, because it seems to me that there are
8 rental values in other elements of the economy.
9 There must be considerable rental value in skilled and
10 well-trained surgeons, for example.

11 MR. SEVACK: Well, he is paid for that.

12 COMMISSIONER PERRY: At least his value is
13 due to the community in which he practices. To a
14 large extent his training has been paid for by the
15 community, in taxes and that sort of thing. So it might
16 be that to a large extent the whole process of taxation
17 is recapturing for society a lot of these values which
18 society has created but which are not limited to the
19 values of land. I know this is anathema to
20 anyone who is a follower of Henry George. Or should I
21 put it the other way: Is it still the Henry George
22 position that these increments occur only in land?

23 MR. SEVACK: You mentioned the surgeon. He
24 earns his increment.

25 COMMISSIONER PERRY: I made it an assumption
26 that there was an economic rent in his income, a
27 scarcity value.

28 MR. SEVACK: That is the law of supply and
29 demand. It is quite different, because if there was
30 a demand for ten times as many surgeons, the colleges



G-2

1 would produce them, over a long period. Or if there
2 were so many surgeons coming out of college, it won't
3 be so lucrative to go into surgery as into other fields.
4 It doesn't happen because we have this law of supply
5 and demand operating all the time. If a presser in
6 a suit manufacturing industry were paid \$5.00 an hour,
7 there would be an influx of people into suit pressing.
8 It would bring it down to \$2.00 an hour.

9 COMMISSIONER PERRY: I was referring to areas
10 where there is a real scarcity value.

11 MR. SEVACK: If there is a real scarcity value
12 it would take a generation or two to eliminate it.
13 But we cannot produce more land. Land is not man-made,
14 it is here, and we can't expand it.

15 COMMISSIONER PERRY: There must be a great deal
16 more land that is usable now than there was fifty years
17 ago.

18 MR. SEVACK: Yes, there is plenty of land in
19 Canada, there is plenty of land in the north, but the
20 most efficient cities are those where the services are
21 not spread out.

22 COMMISSIONER GRANT: Would you call reclaiming
23 land as producing new land?

24 MR. SEVACK: No, it is capital; that is
25 improvement to land, actually, reclaiming land.

26 COMMISSIONER PERRY: It has a scarcity value
27 which has no relation to either cost or effort. It is
28 something which exists simply because the service or
29 good is not available in unlimited quantity.

30 MISS WALTON: As a matter of fact, in a modern



1 society which is highly industrialized this principle
2 becomes more and more important because there is in a
3 sense less available land in industrial centres and
4 so land speculation takes a bigger part of the income
5 of the community; and this is true in causing
6 developments, because at the present time it is
7 impossible to build housing without government
8 assistance because the land goes up and up every year
9 and takes a bigger bite. Fifty years ago it was a
10 small thing; now it is much more significant, and that
11 is the reason you see these apartment houses in
12 suburbs. First they built houses, and then a few
13 years later they can't build houses and you begin to
14 get duplexes and then they build apartment buildings.
15 This is the case much more than it was fifty years ago.

16 COMMISSIONER PERRY: I wasn't suggesting
17 there was no problem either in the valuation of land
18 or the way in which it is taxed. We have all the
19 evidence to see that. I was only suggesting that
20 there may be other areas in the economic system where
21 there are scarcity values and one cannot become
22 preoccupied with this one area.

23 The number of doctors per capita in Canada
24 is the same as it was fifty years ago. I don't want
25 to labour it, but, as I said at the outset, Henry
26 George was writing at a time when there was a very
27 violent change in land values.

28 MR. SEVACK: It is still violent.

29 COMMISSIONER PERRY: I was telling the Commission
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G-4

1 last night that if one looks at the historical series
2 of figures one finds that it is only recently that in
3 some cities of Canada the valuation of property has
4 come back up to what it was prior to the first war.
5 It is a very astonishing thing in that cities like
6 Edmonton and Calgary property values before the first
7 war were as high as ---

8 MISS WALTON: Are you talking of assessed
9 property values?

10 COMMISSIONER PERRY: Yes. This has no
11 relation to economic rent. I am just saying this
12 as a demonstration of this type of price inflation.

13 MISS WALTON: I think there is no doubt that
14 land speculation is much more important than it ever
15 has been, much more significant.

16 MR. SEVACK: Montreal contains 130,000 acres.
17 In 1959, 60,000 of those were not built up. Within
18 a 40-mile radius 610,000 acres of land were held by
19 speculators, 60 per cent of the south shore, 60 per
20 cent of the western end of Montreal, and 60 per cent in
21 the eastern end held by speculators. This is in
22 1959.

23 COMMISSIONER PERRY: As you are saying, there
24 is a problem for the community here in properly
25 rationing the use of its scarce resources. I think
26 the Chairman probably has brought out this point. The
27 practical application of the Henry George principle
28 today would be to tax site values, that is to tax the
29 value of land only.

MR. SEVACK: Yes.



G-5 1 COMMISSIONER PERRY: On the basis of an
2 economic rent. Well, this wouldn't seem too difficult.
3 It would mean an upheaval in our present system, but
4 assuming it couldn't be achieved, what sort of a lesser
5 change might be achieved? Again this is getting
6 us into the municipal area which is probably beyond
7 the competence of this Commission.

8 MR. SEVACK: How about royalties?

9 COMMISSIONER PERRY: I would have thought
10 that this was an area in which the provinces have done
11 a good job.

12 MR. SEVACK: Well, Alberta has.

13 COMMISSIONER PERRY: I think their main
14 distinction is not in the royalties but in the oil
15 they have.

16 MR. SEVACK: I think in most cases they collect
17 the royalties, except Hudson's Bay.

18 COMMISSIONER PERRY: If you examine the
19 revenue structures of other provinces you will find
20 that most have mining and oil royalties.

21 MR. SEVACK: Yes, they do collect some
22 royalties. But we don't feel that they can collect
23 the economic rent, the true royalty, in other words.
24 In other words, they don't make a true bargain with
25 the miner or exploiter, and it makes no difference to the
26 exploiter of the resource who he pays the royalty to. I
27 think the /taxes are something like 10 per cent of the pithead
28 value, which are not a true reflection of economic
29 rent, because there is a different productivity in
30 different mines, for instance.



G-6 1 THE CHAIRMAN: You think the tax should be
2 imposed irrespective of the productivity?

3 MR. SEVACK: No, the tax should be higher
4 where the resource is richer, and it should be nil
5 at the margin. When it is a flat rate at the pithead,
6 they discourage the miner of leaner oils, shall we say.

7 COMMISSIONER PERRY: There are very few
8 provinces which are on this flat volumetric basis;
9 most of them are in the form of a profit tax, and it
10 is a rather intelligent thing to do, it means the
11 poorer mines paying less tax.

12 MR. SEVACK: There are lots of mineral rights
13 which belong to private owners.

14 COMMISSIONER PERRY: Yes, the rights are
15 alienated in some cases. But your point is that they
16 should be recapturing the economic rent.

17 MR. SEVACK: Yes. If the private owner of
18 a mineral resource collects 100 per cent of the royalty,
19 it belongs to him, it doesn't belong to the Canadian
20 people at all.

21 COMMISSIONER PERRY: Most of these natural
22 resource products enter into the international market
23 and their prices are governed by that market.

24 MR. SEVACK: Yes.

25 COMMISSIONER PERRY: Well, as you were saying,
26 in urban areas you suggest that the tax not be on land
27 only, that it be based on economic rent, that in the
28 case of natural resources a royalty should be developed
29 to recapture economic rent.

30 MR. SEVACK: Yes.



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1 COMMISSIONER PERRY: It is interesting to
2 me that you do not claim in your brief, as was claimed
3 by Henry George, the recapturing of the economic rent
4 would provide all revenue and meet the government's
5 needs.

6 MR. SEVACK: Well, we don't necessarily
7 espouse Henry George 100 per cent. In his day the
8 cost of government was much lower. In his day it
9 would have been proved that the land value tax would
10 pay for government, but today government has greatly
11 expanded. There is, of course, the principle that
12 government, like everybody else, should live within
13 its means, and what government can collect from
14 economic rent is what government should restrict itself
15 to spending.

16 COMMISSIONER WALLS: Is it not also true
17 that in his day land was also a greater criterion of
18 wealth than it is today? There is an antagonism
19 to increasing land tax in many parts of Canada. But
20 there is, by national bodies, considerable pressure
21 today, and I include the Canadian Association of Mayors,
22 to relieve from land the tax for such general services
23 as education and to swing that back to income tax,
24 which is the reverse of what you are saying. I think
25 it relates to property, not land.

26 MR. PERRON: Real estate taxes.

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1 You see, real estate tax is a composite of tax on land
2 and buildings.

3 COMMISSIONER PERRY: You mention one or
4 two examples here of instances where tax has been
5 limited to unimproved land values. I am surprised that
6 you don't really mention more than these two cases,
7 New Zealand and Denmark. There is quite an extensive
8 experience in several countries, although none really
9 I would think being full-scale applications of single
10 tax principles.

11 MR. SEVACK: We do mention Pittsburgh,
12 Pennsylvania, where they charge double the rate of tax
13 on land than they do on buildings, in paragraph 53.
14 We mentioned these examples of New Zealand and Denmark,
15 of course, Australia also has I think -- maybe we
16 left out Australia because it is more municipal, whereas
17 New Zealand have a national land tax, federal in other
18 words, land tax.

19 MR. PERRON: In Australia more and more
20 municipalities are shifting to land tax all the time,
21 but then again this is not within the scope of your
22 Commission.

23 MR. SEVACK: In Sydney, Australia, a port
24 city the size of Montreal, they levy their taxes on land
25 value.

26 COMMISSIONER PERRY: I have heard people
27 making contrary statements about Australia. However,
28 I am not prepared to argue about that. Isn't it true
29 though that even in some of our own west coast
30 municipalities improvements are taxed in lesser proportion?

H/AG/je



1 MISS WALTON: All the western provinces
2 tax, I think from Manitoba on, tax land more than they do
3 buildings, and I think farm buildings in Alberta and
4 Saskatchewan are completely free of taxes, but not in
5 the cities.

6 MR. SEVACK: There are some 50 per cent
7 exempt, some 80 per cent.

8 COMMISSIONER WALLS: In some cases they don't
9 exempt the farm home, but only the other farm buildings.

10 MISS WALTON: That is right.

11 COMMISSIONER WALLS: But it seems to me that
12 you create inequities through this because you can
13 take two types of farming, both requiring the same
14 standard of land, one requires 100 acres and one re-
15 quires 10 acres. As far as the valuation of land
16 is concerned it has to be the same quality of land,
17 Both farms may make the same income. You are now going
18 by this method to create an inequity between these two
19 landowners aren't you?

20 MR. SEVACK: Well, I don't know if you would,
21 because actually a farmer grows what is most suitable
22 for his land.

23 COMMISSIONER WALLS: For instance, you have
24 poultry farming that requires comparatively few acres
25 today, a heavy weight on buildings, but very light on
26 land.

27 MR. SEVACK: Therefore I would say a site
28 value would be more appropriate in that case.

29 COMMISSIONER WALLS: And alongside it a
30 dairy farm, both of them located similarly close to



H-3
1 community centres. The land value the same, both
2 make approximately the same income, but under your basis
3 you are going to charge one ten times the tax of the
4 other.

5 MR. PERRON: Not necessarily. The high
6 high land values are in the commercial and industrial
7 areas of the towns.

8 COMMISSIONER WALLS: I understand that, but
9 between these two farms you are going to create an in-
10 equity.

11 MR. PERRON: Yes.

12 COMMISSIONER PERRY: Have you ever considered
13 the possibility that the whole complex of taxes, incomes,
14 consumption, corporate profits, would one way or another
15 absorb quite a bit of this economic rent that you
16 are trying to get at more directly? Is this a
17 proposition that you have entertained?

18 MR. SEVACK: Well, it absorbs some
19 probably. If the corporation has lands they receive
20 rents for these lands, and actually when they pay
21 corporate taxes the income from the rents goes into it,
22 so they are paying a part of the economic rents, but
23 it is a small part of it. It will never take the
24 degree that we suggest.

25 COMMISSIONER PERRY: Would you think a
26 specific capital gains tax would come closer to what
27 you have in mind?

28 MR. SEVACK: No, I don't think a capital
29 gains tax would be the solution, because for a capital
30 gains tax there has to be a sale. While land is being



1 used and increasing in value due to the increase in
2 population and the community, there is no income
3 coming into the government to pay for the services
4 that are required. It is only in the event of a
5 sale that the government can recapture some of that.

6 COMMISSIONER GRANT: Yes, well naturally
7 it is a very imperfect application of what you have
8 in mind, but it would be a gesture, wouldn't it?

9 MR. SEVACK: The British government is
10 proposing capital gains tax on land sales, I think
11 in the last Budget.

12 COMMISSIONER WALLS: Within two years.

13 MR. SEVACK: Yes, but the danger of a
14 capital gains tax is that it would be a capital gains
15 tax per se on every capital gain, and you have
16 to examine the capital gains tax from every point of
17 view.

18 THE CHAIRMAN: So in fact such a tax would
19 apply to labour and capital?

20 MR. SEVACK: Yes.

21 COMMISSIONER PERRY: Just one final
22 question, and that is that if you were starting to
23 recreate the whole tax system with a tax on economic
24 rents as the base of the pyramid, what in your view
25 would be the next things to put on top of that base?

26 MR. SEVACK: Well, all other taxes are
27 bad in our view. They all discourage savings, invest-
28 ment and incentive.

29 MR. PERRON: The worst are the indirect
30 taxes.



H-5 1 MR. SEVACK: The first one we would knock
2 off would be the sales taxes, the indirect taxes.

3 COMMISSIONER PERRY: On what ground would
4 you do that?

5 MR. SEVACK: Well, at least when we pay
6 income tax we know what we are paying. It is
7 politically expedient to impose an indirect tax, because
8 the consumer does not know what they are paying, but
9 they feel the bite from the payroll.

10 MR. PERRON: And the indirect taxes are
11 the worst on those people who can't do anything to
12 improve their circumstances, such as pensioners.

13 MR. SEVACK: Sure. The low income people
14 are paying more in indirect taxes than the rich, and
15 if taxing is by ability to pay, that is wrong,
16 obviously.

17 COMMISSIONER PERRY: Well, this is something
18 we have subtracted, so where do we get the revenue?

19 MR. SEVACK: For instance, the provincial sales
20 tax, which is 11 per cent at the manufacturers' level,
21 \$11 per \$100, by the time it reaches the consumer is
22 anything up to \$33.

23 COMMISSIONER PERRY: We know, we have
24 been talking about that all morning.

25 MR. SEVACK: Well, we knew other people
26 would be bringing that up. If the federal sales tax
27 were eliminated, the consumer would have \$33 on a \$100
28 more to spend, which would generate more taxes in other
29 fields, in income tax, or other fields.

30 THE CHAIRMAN: So you think the worst taxes



1 are the indirect sales taxes?

2 MR. SEVACK: Yes.

3 THE CHAIRMAN: And then you go next to the
4 direct sales tax. Am I right?

5 MR. SEVACK: Well, the direct sales tax
6 is a little more honest, shall I put it, you know what
7 you are paying, but the effect is the same. But if
8 it is 6 per cent at retail level the government collects
9 that tax. It does not multiply, it does not spiral
10 like the hidden taxes.

11 COMMISSIONER GRANT: Isn't that a little
12 bit contrary? Arguing this when a tax on economic
13 rent would turn into an indirect tax very quickly.

14 MR. SEVACK: No, because at the moment we
15 are paying that economic rent in one way or another.

16 COMMISSIONER GRANT: How do consumers
17 know what tax on economic rent has been paid farther
18 down?

19 MR. SEVACK: For example, if you buy a
20 packet of cigarettes at the corner of Peel and
21 St. Catherine, which pays the highest land tax in Canada,
22 you pay the same as you pay at the corner of Viau
23 and St. Catherine, which pays much lower land tax.

24 COMMISSIONER GRANT: Yes, but how would we
25 know how much we are paying?

26 MR. SEVACK: It doesn't matter, because you
27 are paying the same for your package of cigarettes.

28 MR. PERRON: It does not get passed on.

29 MR. SEVACK: The owner of the cigar store
30 at the corner of Peel and St. Catherine is able to absorb



1 it because of the increased sale volume.

2 COMMISSIONER GRANT: It might work out that
3 way on cigarettes.

4 MR. SEVACK: And the income tax, of course,
5 the way it is now we think is wrong as well. It
6 is a tax on wages, on labour --

7 COMMISSIONER GRANT: But you are not
8 labouring it very much.

9 MR. SEVACK: But if we are maintaining the
10 income tax it should be on a flat rate. We should
11 not penalize a person because he has more initiative
12 and ambition, and works more overtime. You get
13 this problem in industry. People won't work overtime
14 because their taxes go up, and so on.

15 COMMISSIONER GRANT: Where does the
16 corporate profit tax fit into on this?

17 MR. SEVACK: Well, they are too high right
18 now. We have a problem with the balance of payments,
19 and the Department of Trade and Commerce is trying to
20 make us export more, and we are paying higher corporate
21 profit taxes than countries like Sweden, who are really
22 export-minded. I think the maximum is around 30 per
23 cent on an average. Some of them are as low as 20
24 or 22 per cent.

25 THE CHAIRMAN: Those are our questions.
26 Do you have anything you would like to say to us before
27 we wind up?

28 MR. SEVACK: Well, the only thing is,
29 as we mentioned, that resources and taxes on land are
30 primarily in the fields of the provinces and



1 municipalities, and not federal, but as we pointed out
2 in our brief according to the B.N.A. Act the federal
3 tax may raise revenue by any means whatsoever. There
4 is the problem, of course, of federal-provincial
5 relations involved, which is political.

6 MISS WALTON: It seems to me that it is
7 a significant thing that since land value taxation can
8 be proved to be an unearning root, that it should
9 be given greater consideration by all bodies. We
10 don't know why it has not been quite, but isn't this
11 true? Anything that can be proved that comes from an
12 unearning root should be considered.

13 THE CHAIRMAN: Well, I would have thought
14 that if it is an easy way to taxation, or a painless
15 way to raise taxation, the natural result as reflected
16 through our political system would be to make full use
17 of it. I have always thought that politicians are
18 very sensitive to what is an easy way to raise taxes,
19 and a painless way, and I would be very surprised if
20 they have overlooked something.

21 MISS WALTON: Well, of course, they are
22 always very sensitive to public opinion, and public
23 opinion at this point seems to be to demand more and more
24 from the government.

25 THE CHAIRMAN: That is right.

26 MISS WALTON: And public opinion has not
27 supported the idea, because our educational system has
28 not supported the idea of a fair system of taxation,
29 and it all boils down to the education, at least I think
30 it does, in the last few years.



H-9

1 THE CHAIRMAN: Well, thank you Mr. Sevak,
2 and the members of your group for assisting towards
3 the education of this Commission. I must say that you
4 have made my understanding of this matter, which I had
5 very little of before you came in, a little better, and
6 certainly I can follow the subject with a good deal
7 more interest as a result of this morning's discussion.

8 Again I say thank you very much indeed.

9 THE SECRETARY: Mr. Chairman, I have one
10 more item of business. I just wish to enter into the
11 record of the proceedings a brief from the Federated
12 Council of Sales Finance Companies. This brief
13 you received on the 3rd of April. The participant
14 has asked me to enter it into the record on their
15 behalf.

16 THE CHAIRMAN: The participant does not
17 intend to appear?

18 THE SECRETARY: He does not intend to appear
19 sir.

20 EXHIBIT NO. 19: Brief of the
21 Federated Council
22 of Sales Finance
23 Companies.

24 ---Adjourned.
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28

ROYAL COMMISSION ON TAXATION

HEARINGS

HELD AT

MONTREAL

P. Q.

VOLUME No.:

7

DATE:

April 24, 1963

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TORONTO, ONTARIO

ROYAL COMMISSION ON TAXATION

Hearing held in Room 404,
McConnell Engineering Building,
McGill University, Montreal,
Quebec, the 24th day of April,
1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT



ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF MONTREAL, QUEBEC

April 24, 1963

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ANGUS, STONEHOUSE & CO. LTD. Montreal, April 24, 1963
TORONTO, ONTARIO

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"A"
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Montreal, Quebec,
Wednesday,
April 24th, 1963.

---On resuming at 9:30 o'clock a.m.

THE CHAIRMAN: The Secretary, have we any
business before proceeding with the first hearing?

THE SECRETARY: No, sir. Mr. Chairman and
Commissioners, we have this morning a brief, which is
before you, from Mr. Frank S. Capon, of the Town of
Mount Royal. Mr. Capon is presenting this on his
own behalf, and I am entering it into the records of
the hearings as Exhibit No. 20.

---EXHIBIT NO. 20: Brief of Mr. Frank
S. Capon

THE CHAIRMAN: Thank you, Mr. Secretary.

SUBMISSION OF MR. FRANK S. CAPON

APPEARANCE: Mr. Frank S. Capon

THE CHAIRMAN: Good morning, Mr. Capon. We
are delighted that you come forward to present your
own thoughts to us. As a matter of fact, I found
myself very intrigued with your writing on the
subject; so much so that I got up an hour early today
to read it for about the third time. Each time I read
it I find myself a little more in line with some of
your arguments. I suspect that because, like
yourself, I am an accountant.

I was rather intrigued with the thought of
requesting an economist to question you today, but,
rather than go to that extreme, I thought a neutral



1 that it will be distributed primarily in the form of wages
2 for work done. Capital has become steadily more
3 important in the productive process, and thus a steadily
4 growing proportion of the total wealth has been
5 distributed as payment for the use of capital. But in
6 the past the use of capital did not take away from
7 wages -- rather it increased productivity so much that
8 total wages could increase in spite of the higher
9 proportion of national income going to capital. Living
10 standards grew and full employment at rising wages was
11 a reasonable objective.

12 But in the past five years the fundamental
13 situation has changed. Because of the technological
14 revolution capital, rather than wages, will ultimately
15 become the primary basis for wealth distribution.
16 Man's age-old dream of a life of leisure
17 while machines do the work is becoming a possibility,
18 because we now have the knowledge to implement this
19 dream. The technological knowledge exists but as
20 automation increases, full employment will fade further
21 and further back into the mists of history. The
22 accomplishment of the dream of lives of leisure will
23 take many years -- but we shall need every minute of
24 those years to solve the psychological, social,
25 political and economic changeover to the brave new
26 world.

27 If the ownership of equity capital, rather than
28 work, is to become the basis for distributing the major
29 part of our total national wealth, it follows that,
30 for the nation to enjoy high living standards our



1 households must acquire increasing amounts of equity
2 capital as work diminishes. This is the capitalist
3 answer to the new challenge -- and the only answer
4 offering both prosperity and freedom. The socialist
5 answer, based on fear of unemployment and misery, is to
6 expropriate all wealth in the name of the state,
7 redistributing it on socialist lines, thus eliminating
8 incentives, reducing productivity and dragging the
9 country down into a drab form of mediocrity.

10 Canada cannot stand aloof from technological
11 progress. To do so would doom us to obsolescence, our
12 goods would rapidly become non-competitive and our
13 living standards would fall. Our natural resource
14 industries alone can no longer employ sufficient
15 people to ensure prosperity, for the resource
16 industries must be the first to adopt automation. Only
17 the sophisticated secondary industries are sufficiently
18 productive to ensure prosperity, but in order to industri-
19 alize rapidly our industrial products must compete.

20 Thus, for our future prosperity we must assure
21 two conditions -- increasing efficiency and productivity
22 through adopting new technology and relieving our
23 manufacturing costs of unnecessary tax burdens, and at
24 the same time a continual broadening in the base of
25 equity capital ownership amongst our households. We
26 have already seen that the corporation tax imposes a
27 heavy, and unnecessary, burden on product costs, making
28 our products less competitive in Canadian and world
29 markets. But does it have a bearing on the complementary
30 problem of broadening the ownership of capital?



Chiefly because of the effect of the corporation income tax our wealth as measured by equity securities is rapidly becoming concentrated rather than the opposite, as is necessary. Because of the great incentive to use debt financing to be repaid out of undistributed profits and because of the excessive depreciation allowances, well over 90 per cent of all industrial growth in North America is now financed internally by existing corporations. In other words, almost all our industrial growth now takes place without offering any new investment opportunities. At the same time, shares at present outstanding are being bought up by pension funds, by university trustees, by insurance companies, by charitable trusts and by similar institutional groups. Thus, equity investment opportunities for our households are actually dwindling. If such a trend is allowed to continue, as unemployment increases, our people will have to rely for their incomes on ever more socialistic handouts until enough people rely on the state for their incomes to vote in the socialist totalitarianism which will expropriate all wealth. If, however, we insist on a reversal of the trend, using sound fiscal policies to bring about a steady broadening of the ownership of capital, our households will become capitalists, unemployment will become leisure because incomes will continue as work falls off, and we shall have protected the freedoms which would be killed under socialism.

This is the second part of the case for elimination of the corporation income tax. In the long



1 run it is by far the most important part, but
2 certainly it is the hardest to explain or to comprehend.
3 The ultimate danger is far from obvious, but present
4 actions or trends must have their inevitable result.
5 Repeal of the corporation tax alone will not bring
6 about wealth redistribution -- other major fiscal policy
7 changes would also be necessary. But so long as the
8 corporation tax continues in effect, our situation
9 can only worsen. The Soviets understand it, because
10 all their texts argue that income tax alone will kill
11 capitalism.

12 The decisions Canada faces today will prove
13 to be the most momentous in her history, for they will
14 determine the future prosperity and freedom of her
15 people just as surely as did any of the fateful
16 decisions of the past. Unless we, or our friends, are
17 attacked we have forsworn war as an instrument of
18 policy, and thus economic and fiscal policies must be
19 employed to shape our future.

20 The long term future of any nation depends upon
21 underlying economic, political or geographical facts
22 which cannot be denied or overcome. If fundamental
23 truths seem unpalatable, we can resist them for a while,
24 and we can whip up national emotions to fight against
25 the inevitable. But in the long run, truth must have
26 its way. Examples of the fundamental truths from which
27 we Canadians cannot escape are these -- our small
28 population is strung out over a vast area making it
29 expensive to move our products to market; our harsh
30 climate causes building and production costs to be



1 higher than in most industrial countries; our intimate
2 co-existence with the U.S. causes our wage rates and
3 living standards to copy theirs, even though our small-
4 scale market makes it impossible to justify such costs
5 and maintain competitive selling prices for our
6 products. Thus, we are, by the nature of things, a
7 high cost producer. These are all facts, unpalatable
8 though they may be, and they would remain true regardless
9 of the political or economic system we choose.

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1 Fiscal tools such as tariffs, taxation or
2 currency devaluation can be used to protect our
3 employment and incomes for a time. But a small population
4 possessing vast natural resources must be a world trader,
5 and to survive and prosper we must take our place in the
6 community of free nations. The trend in this community
7 is towards free trade, fewer restrictions and more
8 competition. Many proud nations are moving towards
9 economic and then political unity with other nations,
10 recognizing the harsh fact that modern technology demands
11 huge domestic markets if it is to produce the prosperity
12 that it does offer. If we choose continued in-
13 dependence rather than conformity with these fast-growing
14 economic pressures to combine into powerful blocs, let
15 us at least be honest enough to evaluate our fundamental
16 strengths and weaknesses and to recognize the ultimate
17 results of our choice.

18 Above all, let us recognize the need to ensure
19 maximum success for our free enterprise corporations, since
20 they alone can provide us with both prosperity and freedom.
21 Let us realize that only our people can pay the cost of
22 the government services and the social institutions we
23 demand; that corporations, being things, cannot bear
24 such costs. Let us recognize that the corporation tax, with
25 its great incentives to inefficiency, to high cost
26 production and to wealth concentration is an important
27 factor in causing our products to be non-competitive, in
28 increasing unemployment in Canada, and in preventing the
29 broadening of the base of capital ownership so vital
30 if we are to prosper in the brave new world. Some of man's



1 most splendid dreams are within his grasp, but Canadians
2 will not realize them unless we face facts and take the
3 realistic decisions necessary to achieve our ambitions.

4 My only real hope is to leave with you
5 just two thoughts:

- 6 (a) that a corporation, being a thing, cannot
7 in fact bear taxes or any other costs that
8 must be borne by people; and
9 (b) that by passing taxes and other social costs
10 through our corporations we merely weaken
11 Canada's economy, reduce our employment
12 and lower our living standards.

13 Thank you, Mr. Chairman.

14 THE CHAIRMAN: Those are two significant
15 thoughts, obviously. Now, the Commission may have
16 a better understanding of your statement, I would ask
17 Mr. Stewart to direct some questions to you. I think
18 we probably all have some up here too.

19 MR. STEWART: Mr. Capon, I would like to
20 deal with a good many points that you have raised. I
21 don't imagine I will deal with them precisely in the
22 same order that you have raised them, but I would like
23 to emphasize that the points I do raise I raise for
24 purposes of explanation and clarification. I think
25 you will find that this will be basically on what is
26 called the tax structure.

27 Before I begin on that line of questioning,
28 and for the purposes of our record here, could I ask you
29 a few questions about yourself? First of all, could you
30 indicate for the purposes of the record?



1 What your principal occupation is?

2 MR. CAPON: I am employed by Dupont of
3 Canada Limited.

4 MR. STEWART: In what capacity?

5 MR. CAPON: Vice-President.

6 MR. STEWART: Would you give us something of
7 your academic and professional background? Could
8 you tell us something of your interest in fiscal
9 matters?

10 MR. CAPON: I am a chartered accountant,
11 having taken my degree here in Quebec in 1938, and
12 from that time have been employed in the financial end
13 of the industry.

14 MR. STEWART: Could we go first of all to
15 one of the first questions that you raised, which is
16 this question of who bears the corporate tax

17 In your introductory statement
18 you have made the point, which was also made in your
19 written submission, that there are basically four
20 groups who pay the tax, or parts of the tax. The
21 shareholders of the company, the stockholders of the
22 company or the consumers of its products, its employees,
23 or the public as a whole.

24 Have you any views yourself as to the relative
25 proportions in which let us say the first three
26 groups, that is the shareholders, the customers, and the
27 employees do bear the tax?

28 THE CHAIRMAN: May I interrupt before
29 Mr. Capon answers? Have you any extra copies of your
30 submission?



1 MR. CAPON: Yes, I have.

2 THE CHAIRMAN: It occurs to me that some of
3 the gentlemen behind you ^{might} take more interest in the
4 proceedings if they have copies. Will you make them
5 available?

6 MR. CAPON: Certainly, by all means.

7 THE CHAIRMAN: Mr. Secretary, will you
8 distribute them please?

9 MR. STEWART: I think I might ^{add} that having
10 regard to the fact that these copies have now been
11 distributed, in your written submission you deal with
12 effects, in particular on page 2 at paragraph 35.

13 MR. CAPON: In answer to the question,
14 Mr. Stewart, I think I would say that the reason
15 no one of the studies on this problem has come up with
16 an answer is that the answer differs from company to
17 company, and year to year so greatly that you can't
18 choose a definitive proportion at any particular time.
19 For instance, if we were to repeal a corporation tax in
20 the coming Budget, which I think is unlikely, immediately
21 corporation profits would be doubled, and presumably
22 therefore the shareholders' income would be doubled, so you
23 might say that the shareholder gets the entire benefit.
24 But that is because at a point of time you suddenly
25 change the rules around again, and you haven't had the
26 time to enable all the other things to catch up. I
27 couldn't answer that question. As I said, one of
28 Canada's leading tax experts says that it is based on
29 selling prices. I don't believe that is so, because



B-5
1 selling prices in Canada are largely set by
2 world markets rather than Canadian markets.

3 MR. STEWART: When you refer to one of
4 Canada's leading tax experts, I hazard a guess that you
5 may be referring to a speech that was made at the 1962
6 Conference of the Canadian Tax Foundation by
7 Dr. A.K. Eaton, and on that occasion he was replying to
8 a speech you had made advocating the type of thing you
9 are advocating today. Is that correct?

10 MR. CAPON: Correct.

11 MR. STEWART: Now, you suggest, Dr. Eaton
12 in that particular speech expressed the view that
13 90 per cent of the burden of the corporate tax
14 was passed on to the consumers. Now, sir, for the record,
15 I refer to the report of the 1962 Conference of the Canadian
16 Tax Foundation at page 21.

17 I would like to refer to certain other
18 evidence which has been given to this Commission on this
19 point. We had a submission a few days ago by
20 Professor Slater of Queen's University, in which he
21 referred to two works. There is an article by Mr. Richard
22 A. Musgrave on the Incidence of the Tax Structure and its
23 effects on Consumption, which was prepared for the
24 Joint Economic Committee of the United States Congress,
25 and is published in a book called Federal Tax Policy for
26 Growth and Stability, which was published in 1955.
27 Now, Mr. Musgrave's conclusion, according to Professor
28 Slater, was that two-thirds of this tax is borne by the
29 shareholder, while one-third is passed on to the con-
30 sumer.



1 Professor Slater also referred to a book
2 by Mr. I.J. Goffman, called "The Burden of Canadian
3 Taxation which was published in 1962 by the Canadian
4 Tax Foundation, and I think it appears in that book that
5 Mr. Goffman considers that some 45 per cent of this tax
6 is passed on from the company, or from the shareholders
7 as the case may be.

8 Then Professor Slater refers to a third
9 authority, a copy of which I have before me, an article
10 by Mr. Arnold C. Harberger of the University of Chicago,
11 which is published in the June, 1962 number of the
12 Journal of Political Economy, and in that article at
13 page 236 Mr. Harberger reaches the conclusion that
14 capital probably bears close to the full burden of the
15 tax.

16 Considering those four authorities, we
17 have one saying that practically all the tax is passed
18 on, one that 35 per cent is passed on, one that 45
19 per cent is passed on, and one that virtually none is
20 passed on. I don't know whether you would make any
21 further comment in those circumstances?

22 MR. CAPON: I think there are four answers.
23 The point that I have been trying to make is that all of
24 that kind of work is an awful waste of time, because
25 it really does not have any bearing on the true problem.
26 If you look upon it from this point of view, that the
27 wealth a nation produces is one big pool, and from that
28 you have to meet the costs of government and the costs
29 of living, that pool of national income has to be
30 passed to the people. It is taxed on the way as it



1 passes.

2 Now, we spend a lot of time fussing around
3 with the corporation income tax, collecting it, and then
4 trying to find out who pays it, when in fact all that
5 time is wasted. If we just tax that as income, as
6 it flows down to people, and recognize that the pool be-
7 longs to the people, that the corporations are nothing
8 but a device to achieve maximum productivity at the
9 lowest possible cost, and not to collect taxes and a
10 lot of other things that are the people's concern, then
11 we would recognize that the corporation tax, while it
12 can do a lot of shuffling with that flow of national
13 income, does not in fact do anything useful in
14 channelling the amount of tax down to the government.

15 If we would let that income flow down from
16 the corporation, either through the dividend group, or
17 through the cost of living group, by reducing prices,
18 or increasing wages, or whatever you want to do,
19 the income flows down to the people. Our living standards
20 will depend upon the amount of our total national
21 product, and then the manner in which that national
22 product flows to the people.

23 MR. STEWART: Yes, I quite appreciate
24 that you regard this as the main consideration, and there
25 are certain aspects of this that I hope we will be able
26 to test as we go along this morning.

27 Would you comment on this proposition, that
28 to the extent that the corporate income tax is passed on
29 to consumers it represents a sales tax, which is
30 discriminatory against customers of corporations for the



1 reason that it is paid by customers of corporations,
2 and not by customers or partnerships, or proprietorships,
3 or co-operatives?

4 MR. CAPON: Possibly to the extent that it
5 is passed on, but I am much more concerned with the
6 fact that because of the existence of that corporate
7 income tax and the fact that it may be passed on it does
8 have an effect on our costs, and it does have some
9 effect on our prices. It infact prevents us from
10 making products in Canada. I am concerned not with
11 the statistics that do exist, but with the statistics
12 that don't exist, because it stops us making things
13 in Canada. We forget all about the impact on our costs
14 and selling prices which prevents us from making things,
15 and therefore having statistics on them.

16 MR. STEWART: I think I may be coming to
17 one aspect of that.

18 Now, let's suppose that to some extent the
19 tax is passed on to consumers, or to make it a little
20 easier, let's assume for the moment that it is completely
21 passed on to consumers. Now, it has been suggested,
22 I think, by the Canadian Manufacturers' Association that
23 the average profit after tax of members of that
24 Association is approximately five per cent of the sales.
25 Now, if that tax is completely passed on, and as the tax
26 at the moment is approximately 50 per cent, I take it this
27 would mean that the tax would result on the average in an
28 increase in selling prices of approximately five per cent,
29 at least for these members of the Canadian Manufacturers'
30 Association who were taken into account?



1 MR. CAPON: I think that is an assumption,
2 unfortunately, that is not useful, because I can name
3 you any given number of products where the tax as such
4 has nothing whatever to do with it, that is true
5 of most of our natural resources, and it is true of many
6 of our products. We sell nylon. Our price is based
7 upon the price in the world market. It has to be.
8 Our profits on nylon are lower than the profits that
9 we made in other parts of the world. We have to be
10 content with a lower profit margin in Canada than the
11 U.S., or the European profit margin. That is because
12 of a number of factors, including the corporation income
13 tax, but our selling prices have to be fixed in world
14 markets for most of our products, and the world markets
15 price of foreign goods landing in Canada, as well as
16 Canadian goods throughout the world. So I don't think
17 it is valid to make an assumption that this tax is
18 passed on in prices, because I can quote you many
19 prices where it is not passed on.

20 --

23 --

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MR. STEWART: But you do, at the same time,
suggest that it is passed on.

MR. CAPON: There is an element of passing on.
I can't evaluate it. I simply say it is one group that
pays the tax, and if you eliminated this tax we do
eliminate a major cost factor.

MR. STEWART: In any event, to the extent it
is not passed on, it has not got an effect on selling
prices.

MR. CAPON: That is right.

COMMISSIONER PERRY: Before we leave that point,
Mr. Stewart, I wonder if Mr. Capon would consider the
thought that these market prices might be influenced by
the corporations profit tax paid by other countries.

MR. CAPON: They might be, and if we in Canada
gain an advantage in changing our corporation setup --

COMMISSIONER PERRY: I agree that that must be
answer.
your / I only wanted to hear the first part.

MR. STEWART: Then, Mr. Capon, when you deal,
as you do in your submission, with the effects of the
abolition of this tax, which you advocate, you deal
with the respective effects in a number of respects.
Dealing with corporate prices, in the first instance
you suggest that to the extent that the tax has been
passed on there may well be a gradual reduction in
prices, and I think in paragraph 60 of your submission
this would, in fact, be desirable because it would take
off the consumers a tax that they perhaps should not
be expected to bear.

MR. CAPON: That is right. If this tax is



1 passed on to consumers, then I say that is totally
2 inequitable because if it is passed on to consumers,
3 then, in fact, our corporate shareholders are getting
4 their chunk of corporate income free of tax, and with
5 that I don't agree, industrialist as I am.

6 MR. STEWART: Then if I switch to the effect
7 on wages, to the extent that wages are lowered through
8 a shifting of the tax, then the abolition you suggest
9 in paragraph 35 might lead again over a period to
10 increase in wages.

11 MR. CAPON: That is right.

12 MR. STEWART: Now, I come to the effect of
13 the abolition on corporate profits, and while I
14 appreciate we are considering the situation which would
15 develop if the tax were abolished, I would, nevertheless,
16 like to deal with our present concept of pre-tax
17 profits.

18 Now, to the extent that this tax has been
19 passed on to consumers and to labour, and to the extent
20 that, after its abolition, the prices of goods to
21 consumers are reduced and the wages of labour are
22 correspondingly increased or appropriately increased,
23 then corporate profits in the sense I am using the
24 term would be reduced.

25 MR. CAPON: Right.

26 MR. STEWART: If the tax had been entirely
27 passed on to these two groups, that is consumer and
28 labour, and on its abolition adjustments occurred, then
29 in a sense corporate profits would be in effect cut
30 in half.



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1 MR. CAPON: Right.

2 MR. STEWART: But if the tax has not been
3 passed on at all, then on its abolition the profits
4 would remain the same.

5 MR. CAPON: Pre-tax profits, right.

6 MR. STEWART: Now, let's go on to consider
7 for a moment the effect of its abolition or the
8 prospective effect of its abolition on business as a
9 whole, or the economy, call it what you will.

10 First of all, you suggest, and I am going to
11 come back to that at a slightly later stage, that
12 this can be done without impairment of adequate tax
13 revenues.

14 MR. CAPON: That is right.

15 MR. STEWART: And in paragraph 46 you suggest
16 that the dropping in prices which might result upon
17 the elimination of the tax as a cost factor would have
18 certain beneficial results, higher output and profits
19 on Canadian operations, increased employment and
20 increased profits and therefore increased government
21 revenues.

22 Now, may I ask you to enlarge a little bit
23 on that and tell us how these beneficial results would
24 come about when the aggregate tax bite taken by the
25 government or by governments would remain the same?

26 MR. CAPON: Certainly. In the first place,
27 I spend half my time concerning myself with management
28 discussions as to how we can bring new industries into
29 Canada, and we are looking constantly at how we can
30



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1 use the newest technologies, most of which are
2 necessarily developed abroad in a more mature economy
3 now. All around our newest technology requires very
4 substantial capital sums, very large capital outlays,
5 and usually low sales value in relation to Canada.
6 Now, this is the nature of modern technology, and
7 that means that in the costs of production there is
8 a very heavy factor of what we call capital factors,
9 such as depreciation, and so on, and that in turn
10 means that on each dollar of sales you have to have a
11 larger than normal, larger than historical, amount of
12 what we will call profit to pay for the cost of
13 capital. But because of corporation income tax you
14 have to allow an additional amount to pay the
15 corporate income tax, and we are finding more and more
16 that the amount of corporate income tax per dollar
17 of sales revenue is preventing us from considering new
18 products in Canada.

19 As we get into new technology with more
20 capital we are having a much greater weighting for
21 what is called the profit factor and because after
22 tax we have to double that in the selling prices of
23 goods, and we are finding more and more difficulty in
24 justifying Canadian production.

25 That has nothing to do with the amount of
26 the government tax bite, but it is a very definite
27 and strong factor militating against Canada adopting
28 new technology.

29 Now, that is only one part. If, as you say,
30 part of this tax is passed on and we would reduce some



C-5 1 prices and thus reduce corporate profits, then where
2 would the government get its revenue? If our prices
3 came down, then it would have a leverage effect on the
4 country which would provide an increase of productivity,
5 which would increase the government revenue. We have
6 our total productivity. Taking off the corporate tax
7 doesn't change that pool. It gets taxed. A corp-
8 oration may not be able to bear it. It can pay it,
9 but it cannot suffer it, and I say it would be
10 collected automatically by our present structure, but
11 you can modify our present structure without increasing
12 our tax load. It doesn't change our national income
13 or the flow of our national income.

14 MR. STEWART: I take it, in a word, that it
15 comes down to this, that you would be reducing or
16 eliminating what would be treated as a corporate cost.

17 MR. CAPON: That is right. You take it out
18 of the cost structure into the income structure and
19 thereby you eliminate this incentive to inefficiency.
20 I am under pressure all the time to do something --
21 put new rugs on the floor or something.

22 MR. STEWART: Would the principal benefit of
23 this be in what might be regarded as the purely
24 domestic area or would the principle benefit be in a
25 foreign area, which can obviously be divided into two
26 parts: that is, would it improve the competitiveness
27 of Canadian industry as regards exports, and would it
28 enable domestic industry to compete more effectively
29 against imports?

30 MR. CAPON: The primary factor would be



1 domestic and against imports. Essentially, our
2 exports are our resource materials. That is in the
3 nature of the Canadian economy, unfortunately. Now,
4 to the extent that elimination of this tax would help
5 us, in fact, to increase Canadian manufacturing
6 opportunities, it would also help us to increase our
7 export opportunities for manufactured products. But
8 right now those are very limited.

9 MR. STEWART: Now, I come back to the question
10 Mr. Perry raised. If this particular fiscal measure,
11 the abolition of the corporate income tax, turned out
12 to be the panacea you suggest it might be, could that
13 benefit as far as Canadian industry is concerned largely
14 be neutralized if other countries with which we trade
15 adopted the measure, too?

16 MR. CAPON: It might be, but that doesn't
17 change the fact that the case is valid to eliminate the
18 tax. Other countries might do the same thing, too;
19 it would be just as valid for them.

20 MR. STEWART: This may not be a proper
21 question, but would you consider action of this sort
22 on the part of the Canada would be likely to have any
23 effect, any real effect on the fiscal policies of other
24 countries?

25 MR. CAPON: It could be.

26 MR. STEWART: Now, Mr. Capon, if I can switch
27 to the question of management for a moment.

28 You have suggested that the existence of this
29 tax bears on efficiency, and I am going to come back to
30 that in a moment. Another point I would like to get



1 your views on is, do you consider this tax operates
2 or operates otherwise as a disincentive?

3 MR. CAPON: Disincentive in what way? To
4 management process?

5 MR. STEWART: Well, I suppose one way would
6 be the way you have already touched on, that because it
7 is treated as a cost it would in effect preclude
8 management in certain instances from going into
9 additional lines.

10 MR. CAPON: That is right. This tax has a
11 major effect upon management, that almost all our
12 major decisions now have to be made having regard to
13 the tax, and very frequently they are made in what I
14 would call uneconomic ways because of the tax, in order
15 to take advantage of the tax or in order to evade it.
16 The tendency is to make management decisions in such
17 a way that it is frequently not the right way from an
18 economic point of view, from the normal viewpoint.

19 MR. STEWART: I wonder what your comment would
20 be on the statement which Dr. Eaton made in the speech
21 to which you referred, and I am looking now at page
22 21 of this report where, at the bottom of the page, he
23 said that in his opinion the corporate tax does not
24 discourage business incentive any more than any other
25 cost since business recovers in prices.

26 MR. CAPON: Well, my answer to that is quite
27 simple. This is quite true, but obviously what Dr.
28 Eaton is saying there is that it is, in fact, a cost,
29 and because of this cost it is in effect a discouragement
30 to management process. If you recognize that our



1 corporations between them are responsible for
2 managing the total resources of the country, you
3 recognize that because it is put in as a cost factor it
4 affects our management.

5 MR. STEWART: Let's go back to this question
6 of efficiency. You have referred to that in your
7 introductory statement, and in your written submission
8 you deal with it in some detail in paragraph 30, and
9 in paragraph 43 you refer to the importance of the
10 abolition of the corporate tax from the point of view
11 of its effect on efficiency, and so on.

12 Now, what in your opinion are the main
13 incentives that management has today as regards
14 efficiency? I realize it is a very broad general
15 question, but what is it that makes the management of
16 our companies strive for efficiency?

17 MR. CAPON: It is very simple to me. The
18 biggest incentive that management has is the incentive
19 of power, to be the boss of the biggest company, and
20 to do that you have to have efficiency.

21 Now, management's responsibility is to operate
22 the country's resources in such a way as to achieve
23 maximum productivity at lowest possible cost. That
24 is our job in management. We are entrusted through
25 our companies with the country's total productive
26 resources, and by using these resources we will
27 generate the country's total wealth. Our job is to
28 achieve maximum productivity at lowest possible cost.
29 Our incentive is to do that job well so that we are
30 better than the next fellow.



1 MR. STEWART: Now, when you determine your
2 particular course of action in a particular company --
3 that is perhaps too narrow a question. I should
4 emphasize that I am dealing with management in total,
5 management in the abstract. When management determines
6 its particular course of action in a particular company,
7 in a given industry, what are the checks to which it
8 considers it is exposed?

9 MR. CAPON: In theory or in practice?

10 MR. STEWART: Well, let's take them one at
11 a time.

12 MR. CAPON: Well, in theory under the capitalist
13 system, the check on management is that if it doesn't
14 make enough money it won't get capital, and that is
15 the essential element of capitalism, the incentive to
16 earn the right return to justify investment.
17 Unfortunately, corporate income tax is providing a
18 fiscal system under which our corporations don't have
19 to worry about getting capital. We grow in time.
20 Now, with that position, the management decisions
21 depend entirely on the people at the top, people
22 capable of keeping it going. If you get a strong
23 man at the top of the company, for him to grow, for
24 him to go through with his pet project, simply
25 because he has money in the bank, there is a change,
26 unfortunately, in the effective control over the
27 free enterprise system.

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1 MR. STEWART: Let me ask you this. You have
2 not mentioned at all the fact that there are share-
3 holders in these companies?

4 MR. CAPON: You are causing me to say things
5 most management people wouldn't agree with. I think
6 because of the nature of capital growth, as I have
7 explained, and because of what is happening to the
8 ownership of shares, less and less attention is in fact
9 being paid to the shareholders of those companies. I
10 think that is all wrong, and I am not saying that this
11 is true of my own company, but I am saying that that
12 is one of the effects of the way a capital system is
13 developed.

14 The shareholders in fact now are looking
15 upon themselves, if you like in much the same way as
16 labour. They are a group against management, trying
17 to force management to disgorge a few dividends. In
18 fact, we ought to have a system whereby the management
19 has no alternative but to pay the profits to the
20 shareholders. They belong to the shareholders in the
21 first place, not to the company. The company, being
22 a thing, can't own them.

23 THE CHAIRMAN: During the work of this
24 Commission we like to look for neutrality,
25 and I think the ultimate test of neutrality would be to
26 have no taxes of any kind. Let's assume for the moment
27 that there are no corporation taxes on distributed
28 or undistributed income, no taxes on dividends, and in
29 fact no taxes at all. What would be then, do you think,
30 the amount of corporate income that would flow out to



1 shareholders?

2 MR. CAPON: If that is a broad distribution
3 of the ownership of a corporation, I think that pro-
4 portion would be very high. If there is a narrow
5 distribution, then I think it would tend to be low.

6 THE CHAIRMAN: Would you like to keep on
7 going and explain why?

8 MR. CAPON: Well, the normal human being
9 has a need for a certain amount of income. He always
10 needs a little more than he has, but there are limits
11 to which we can use that. So that if the ownership
12 of our corporations is concentrated, those shareholders
13 have only certain ability to use income. They would
14 not go to the trouble of taking it out, assuming no
15 taxes at all, unless they had some other use for it.
16 On the other hand, if the ownership of our corporations
17 is broad, there ought to be enough pressure on our
18 corporations to take that income out, assuming there
19 are no taxes anywhere. At the moment, you have a
20 personal income tax and a corporation tax, and you have
21 to force your companies to disgorge, because of the
22 obvious advantage of leaving it in as capital gains,
23 and I am not in favour of capital gains.

24 COMMISSIONER GRANT: If you consider that
25 this is too close to your occupation, the position
26 which you hold in your company, then you will certainly
27 say so, Mr. Capon, and I will understand, but it seems
28 to me that in your own company that you have followed
29 a practice of increasing your pay-out as your profits
30 increase and that has resulted in your own particular



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1 stock being particularly well received, and it has shown
2 a marked increase in price.

3 Do you consider that is a defined policy on
4 your part?

5 MR. CAPON: Well, I think if you look at the
6 statistics, Mr. Grant, you will find unfortunately that
7 we really haven't increased the pay-out. We are
8 paying out 50 per cent. We have increased the rate
9 of dividend, because we have increased the rate of
10 earnings, but our pay-out at the moment is about 50
11 per cent.

12 COMMISSIONER GRANT: Thank you. I should
13 have framed my question a little differently, to say
14 whether or not it did represent an increase in your
15 percentage of pay-out?

16 MR. CAPON: If you go back into our back
17 history, you will find that we have believed in a high
18 pay-out, and it was historically above 90 per cent.
19 But at that time the pay-out for all companies was
20 much higher than it is. It has dropped, and it has
21 dropped I believe because of the fact of corporation
22 tax.

23 COMMISSIONER GRANT: There must have been
24 very little public financing in say the past five years,
25 as compared to what it was prior to that, when we were
26 in an expansion period in industry. Would you say that
27 that was due to the fact that companies are now doing
28 their financing from their retained profits, more and
29 more?

30 MR. CAPON: From their retained profits and



1 from increased depreciation provisions. In other
2 words, as we spend money on capital we step up the
3 amounts that we set aside out of selling prices for
4 depreciation. In fact, the U.S. figures at the
5 moment, show, I believe, that the total depreciation
6 set aside by corporations is about equal to the total
7 of all capital expenditures already. In other words,
8 in total we could finance all our industrial growth
9 without even retaining any earnings, and this is growth.

10 COMMISSIONER BEAUVAIS: If you have a funded
11 debt you will take the funds from depreciation in order
12 to redeem it?

13 MR. CAPON: That is right.

14 COMMISSIONER BEAUVAIS: And if you abolish
15 the corporate income tax, and if a high rate of tax
16 is imposed on undistributed income, it means that
17 the distributed income will become four times less
18 of course, the reduction in profit occasioned by a
19 reduction in prices?

20 MR. CAPON: That is right.

21 COMMISSIONER WALLS: I would like to go maybe
22 a step further on this question that Mr. Beauvais put
23 to you. As I understand it, you recommend the loss of
24 the corporation income tax, which is predominantly on
25 a 50 per cent basis, but first of all, I would like
26 to make it quite clear that with your plan you see
27 within the income tax structure achieving the same
28 amount of revenue to the government without attacking
29 any other tax structure, right?



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1 MR. CAPON: Right. 585

2 COMMISSIONER WALLS: The 20 per cent tax
3 credit would be a gain. The next would be the heavy
4 tax on undistributed corporation income, but because
5 of that heavy tax, that amount of income that is going
6 to be so taxed is going to be reduced very considerably,
7 isn't it?

8 MR. CAPON: Well, I would not expect the
9 corporations to in fact be able to retain any income.

10 COMMISSIONER WALLS: Then you get it
11 funnelling down, as you suggest, and it comes down
12 then to the individual paying?

13 MR. CAPON: Right.

14 COMMISSIONER WALLS: But you also recommend
15 that we get away from the progressive income tax into
16 a flat rate income. I don't know what flat rate you
17 are thinking about, but some other disciples of the
18 same theory talk about 16 per cent. You are getting
19 rid of one tax structure where you are paying 50 per
20 cent, and funnelling it down to a tax structure where
21 you are only getting 16 per cent. I agree the money
22 is funnelling down, but the amount that is taxable,
23 is it not getting less?

24 MR. CAPON: I didn't recommend a flat rate.
25 I said if there was a low flat rate we would get about
26 as much income. I did urge that we cut down the
27 extent of the graduation, but I assume the top income
28 would bear about 50 per cent. Now, if at the present
29 time our corporate taxable income is \$3 billion, which
30 is an order of magnitude figure, the corporate income is



1 \$1½ billion. If you eliminate the corporate income
2 tax and pay out the \$3 billion to the shareholders, you
3 get your tax.

4 COMMISSIONER WALLS: Provided it goes to those
5 saying 50 per cent.

6 MR. CAPON: Yes. I would expect the bulk
7 of our dividends to go at this time to people in the
8 middle and upper income tax brackets. Now, I would hope
9 that that would change, but as that would change it
10 would change, because of a fundamental change in the
11 economic welfare of our households, an increase in rate
12 of income in our households, which would give you a
13 broadened base for the collection of normal income tax.
14 We could eliminate the corporation income tax over
15 a period of five years, take it in steps. I believe
16 that would be the effect. I would hope the Commission
17 would have better information than I have to prove it.

18 COMMISSIONER PERRY: Is it fundamental to
19 your proposal here that corporation profits remain
20 at about their present level?

21 MR. CAPON: No. I have no feelings on what
22 the right level is for corporation profits. As I see
23 it, our sole responsibility in our corporations is to
24 be as efficient, as effective, as possible, and
25 corporation profits have to be sufficient to give the
26 incentive to the investment of Canada, and I believe they
27 will simply find their right level. As of this
28 moment it is fundamental to this Commission that for
29 collecting the government's revenue they should stay at
30 the right level, but when we change the level we change a



1 whole lot of other things. The corporation profits
2 would move away from this level. My concern is to
3 increase this total pool of national wealth, and if
4 we can increase the total pool we can increase the tax
5 tail.

6 COMMISSIONER PERRY: One aspect of this is
7 relevant, and that is if you place straight emphasis
8 on having families become equity holders, one of the
9 means by which you hope to achieve this is through the
10 distribution of dividends and this, on your own
11 arithmetic, can only be achieved by maintaining
12 corporate profits at about their present level.

13 MR. CAPON: I see no reason why they should
14 not stay at their present level, and if we can make
15 our householders equity holders -- a householder
16 should own equity shares, rather than government bonds,
17 and if we can get government bonds into their hands,
18 we can get equity shares into their hands. But it is
19 only by the equity share route that they can participate
20 in the earnings.

21 COMMISSIONER PERRY: There is the difficulty
22 still that somewhere the saving process has to go on,
23 as you say yourself. It is now being done largely at
24 the corporate level. If your tax system prevents that,
25 as yours would, then it does have to go on somewhere else,
26 and you might lose that if for example corporations were
27 to reduce their prices by the extent of the corporation
28 tax.

29 MR. CAPON: All that does is increase the
30 people's ability to save.



1 COMMISSIONER PERRY: Exactly, but in a form
2 which they might dissipate.

3 MR. CAPON: Now Mr. Perry you have hit on
4 a real point, and I was hoping that somebody might
5 say that. What you are saying is that you should give
6 to our corporate managements the power to decide how
7 people should save their money, and I say no.

8 COMMISSIONER PERRY: If I meant that, I
9 retract everything I said. I am saying that your own
10 argument appears to lead to that conclusion.

11 MR. CAPON: No, I say that I would trust
12 the people to make the savings that are necessary for
13 our capital process. If we would pay to the share-
14 holders the earnings we really make in our companies
15 they would have plenty of incentive to save. It has
16 to come from this total pool of national income.

17 COMMISSIONER BEAUVAIS: How is labour going
18 to have increased earnings with that, because if labour
19 sees that the profit of the corporation is nearly
20 doubled, or doubled, then they will come back at the
21 corporation to have their wages increased?

22 MR. CAPON: Labour as such is not going
23 to receive increased earnings in the years ahead. They
24 are going to receive reduced earnings in the years ahead,
25 and that really is my fundamental problem. Nothing
26 we can do will prevent the fact that we are going to pay
27 less and less money as payment for wages.

28 COMMISSIONER BEAUVAIS: In total.

29 MR. CAPON: Yes, and nothing that we can do
30 will prevent that. Therefore we must get income into the

1 hands of our householders. I don't like talking about
2 labour as a class, because that immediately makes me
3 management as a class. As far as I am concerned
4 I am Canadian, and my elevator operator is Canadian.
5 He is not labour and I am not management. Talking
6 about labour, it is a class in contrast to some other
7 class, and that is why I keep talking about our house-
8 holders.

9 COMMISSIONER BEAUVAIS: Do you include
10 labour in your householders?

11 MR. CAPON: Absolutely.

12 COMMISSIONER GRANT: What bearing would
13 this system have on a corporation's
14 policy as now carried out?

15 MR. CAPON: Simply this, that I would
16 expect our corporations to have to justify their
17 major expansion projects, and to seek capital to support
18 them, and that of course is what the capital system
19 is intended to do. It was intended to offer
20 investment opportunities to the people, and that is
21 why our company law spells out the terms of the
22 prospectus. We have got out of the habit of
23 issuing prospectuses. We don't have to issue them
24 any more, because we don't have to issue shares any more.
25 A nice, big form of income for the legal profession is
26 going out the window.

27 THE CHAIRMAN: We have about 25 minutes more
28 with Mr. Capon, and I really think that economy in our
29 time would be best served by leaving it to Mr. Stewart
30 to proceed for say the next 15 minutes. He has not got



1 half way with his questions, so he will have to compress
2 a good deal into 15 minutes. And we will have to
3 compress a great deal into ten minutes, and then if
4 we are unsatisfied, we can ask Mr. Capon to return
5 and see us again next autumn, or some other time.

6 Mr. Stewart, would you proceed?

7 MR. STEWART: Thank you, Mr. Chairman.

8 I think in the circumstances I will abandon my search
9 for a sanction on management, which I had remarked on.
10 I would like to come to this question of what amounts
11 to compulsory distribution of corporate profits, and
12 I will, I think Mr. Capon, put several questions to you
13 at once, and ask you to comment on them as a group.

14 Why is it that in your opinion the
15 reinvestment by a company of some part of its earnings
16 is not desirable?

17 Why should a company not retain part of
18 its earnings for corporate purposes, including new
19 capital requirements?

20 Why is it not reasonable for a company to
21 finance internally to some extent?

22 What evidence is there that management, when
23 it does accumulate profits and does not distribute
24 profits by way of dividend, is not acting in the best
25 interests of the company?

26 Why is it that if management knows that
27 particular sums are going to be required for particular
28 corporate purposes, it should not retain them, rather
29 than pay them out by way of dividend, expose the share-
30 holders to tax, and then either borrow the money back or



1 get it back through issues of stock?

2 MR. CAPON: Well, raising the questions I
3 think indicates, or at least attributes to me, some
4 statements that I hope I didn't make as such, but I
5 would like to try to put my views on those points.

6 Fundamentally, recognizing that we are
7 human beings, the interest of management per se
8 may be different to the interests of the shareholders.
9 I don't say that management is not going to make the
10 decisions that are in the best interests of the
11 company, but I do say that, as human beings, our urge
12 may be to build a new plant to produce something that
13 we really want to get into because of the human urge
14 to be wanting to manufacture that product, or to
15 build a new head office building because before I retire
16 I want to be able to walk along the street and say that
17 is the office building that I built.

18 I think the incentives for management
19 are necessarily different, or possibly even in conflict
20 with the interests of shareholders on some points, and
21 I think it is a good thing. But under the capital
22 system the investment of capital should be the decision
23 of the capital owner, and management is not the capital
24 owner. I say that we should, if we are going to have
25 a healthy capital system, and if we are going to rely
26 on the system of capitalism, to weed out the in-
27 efficient. Then we should stick to the principle
28 that capital always belongs to the shareholders, and
29 that its income always belongs to the shareholders.
30



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1 It belongs to them, it must be paid to them. If they
2 want to reinvest it, that's fine, let them do that.
3 But let them make the decisions. It is their decision.
4 What I am saying is that the investment of capital
5 should be the responsibility and the right of the
6 owner of capital and not the right of management.

7 MR. STEWART: May I ask this related question?
8 Would it be unreasonable in a particular case for
9 the existing shareholders of the company to retain
10 all the equity ownership in that company?

11 MR. CAPON: No, not in the least. I have no
12 objection to people wanting to retain their shares. If
13 they die they are going to lose most of them in
14 succession duties. But I have no objection to him
15 getting anything he can get his hands on and retaining
16 it, if that is what he wants to do.

17 MR. STEWART: If a particular company wants
18 to distribute its profits and would accomplish that by
19 rights offerings to existing shareholders, what would
20 you say to that?

21 MR. CAPON: That is a logical route.

22 MR. STEWART: You deal in paragraph 41 and
23 47 of your submission, and you referred to this earlier,
24 with the cost of compliance with the existing tax
25 legislation. I suggest to you that most of that
26 effort is directed to the determination of income for
27 the purpose of the corporate tax. I would ask you to
28 comment on this. You say, as I understand it, that
29 corporate income should be distributed. Now, is it
30 not going to be necessary still under your new regime



E-2

1 to determine corporate income so that all concerned
2 will know what amount there is to distribute, and also,
3 since you are suggesting a tax on undistributed
4 corporate income so that the tax collector will be
5 able to determine the tax to which he is entitled, again
6 I would like to put a series of questions to you because
7 of the time limit.

8 You say in paragraph 52 that under the new
9 dispensation we can rely on auditors of companies to
10 determine income. How is it that in the chain of
11 circumstances greater reliance can be placed on
12 auditors of companies than is, in fact, placed on them
13 at the moment?

14 MR. CAPON: In the first place I would like
15 to correct, at least put on the record my own view
16 on one of the very first statements, that the bulk of
17 this cost is not involved in the calculation of income;
18 a relatively small bulk of complying with this tax is
19 concerned^{with}/calculating income. Most of it is trying
20 to avoid paying this tax. Most of the time of
21 people in corporations is spent trying to get around
22 it, have discussions on it.

23 MR. STEWART: Let me say this, that as far
24 as I am concerned the question is still valid.

25 MR. CAPON: I would like to answer the second
26 part of the question.

27 In the first place, we do not attempt to place
28 any responsibility on professional accountants for our
29 taxation except to the extent that small clients, medium-
30 sized companies will rely on auditors to make up their



1 income tax returns. The company may have a case
2 against the auditor, or else there is fraud involved,
3 then surely they can go back to the auditor in the
4 cause of fraud, and they have done so. But if we
5 accept the fact that we are not trying to tax income,
6 all we are trying to do is to ensure that corporate
7 income is paid out, you will find that we can, in fact,
8 eliminate a vast amount of the tax.

9 Secondly, I am a member of the accountancy
10 profession, and as such I say that the accountancy
11 profession can, in fact, issue just as good a code of
12 accounting as the income tax department, and we can say
13 it is the code and the accountants of our profession
14 will certify it in accordance with the code and we
15 can place in it the penalty for evasion, and if we
16 did that it would be a great help.

17 MR. STEWART: Let me say in passing that we
18 have already had the Canadian Institute of Chartered
19 Accountants before us at these hearings, preliminary
20 hearings, and at that hearing they were most reluctant
21 to go along with that.

22 Let me go to the effects of this proposed
23 abolition of the tax on the shareholders of the
24 companies.

25 You divide the shareholders for this purpose
26 into three classes, and I will deal with those three
27 in order. The first are the non-resident shareholders
28 which you say own about 60 per cent of our equities in
29 Canada and, as I understand your submission, you
30 suggest that non-resident shareholders be subjected to a



E-4

1 57 $\frac{1}{2}$ per cent withholding tax.

2 MR. CAPON: Yes.

3 MR. STEWART: Some of my questions on this
4 subject are these. First of all, is that not going to
5 impose on shareholders in particular countries,
6 particular foreign countries, a very serious problem
7 as regards foreign tax credits? We, I may say, have
8 already had evidence at these hearings as to the
9 importance of establishing a tax climate in Canada
10 which will preserve and, in fact, increase the amount
11 of foreign investment in Canada. This may be a
12 mechanical problem, I don't know. Would this or
13 would this not require renegotiation of practically all
14 the tax agreements that Canada has with other countries,
15 and might not a 57 $\frac{1}{2}$ per cent withholding tax of this
16 nature not lead to the drying up of foreign investment
17 and, in fact, the wholesale selling by foreigners of
18 foreign-owned Canadian securities?

19 MR. CAPON: In the first place, this 57 $\frac{1}{2}$ per
20 cent is what the foreigner is paying on Canadian profits,
21 and the amount of recovery he gets depends on his
22 own domestic tax situation. Secondly, as far as I
23 am concerned, I do not subscribe to the view that we
24 should increase tax on foreign-owned equities. Unless
25 we can buy back our equities, unless we can, in fact,
26 get a return on foreign holdings, we are going to
27 suffer, because our nation advances as we move from the
28 wage sector to the capital sector, and if the capital
29 sector is foreign-owned, they are going to move out
30 of Canada.



1 So as far as I am concerned, I am not in
2 favour of any increase in foreign-owned Canadian equity
3 securities.

4 MR. STEWART: Let's switch to the Canadian
5 institutions and corporations. There you propose to
6 impose a 50 per cent tax which you say is the equivalent
7 of 50 per cent corporate tax which is now being paid.

8 I would like to ask why, basically, you object
9 to the holding of equity securities by life insurance
10 companies, pension companies, and holding companies
11 generally. Some of these institutions, in any
12 event, do represent the savings of small investors and
13 their investments in that respect are a pooling of
14 investment by small people who may not be terribly well
15 qualified to embark on fiscal programs themselves.
16 Why do you consider there is an uneven distribution of
17 wealth in that respect?

18 MR. CAPON: These institutions are not savings
19 institutions. Having been brought up in that business,
20 I am a rebel there, too. They are not savings
21 institutions. The primary purpose of an equity
22 security is to serve as the mechanism for funnelling
23 a national income down to the capital sector as
24 opposed to the wage sector. If the householder has
25 to have high enough wage standards, he has to have the
26 income, and the income does not go to the householder
27 in that case. They would not get the income. If we
28 give them the income they can pay their insurance
29 premiums and their other costs, and they can build
30 their universities and concert halls; they determine



1 how it is going to be spent.

2 I say that these institutions should rely on
3 debt securities, and we are going to have plenty of
4 debt securities. I am concerned simply in saying that
5 equity securities is the only mechanism by which we
6 can distribute income on a national basis, and therefore
7 it cannot be by an institution.

8 MR. STEWART: Let us deal with individuals.
9 I think we have agreed that if the tax, corporate tax
10 is not shifted, then, as you suggest in your submission,
11 the rate of dividend might be multiplied by four. If
12 the corporate tax is completely shifted now, then on
13 its abolition the rate of dividend would be multiplied
14 by two. It may be the result would be somewhere in
15 between the rate of two and four. Now, the type of
16 share which the Canadian individual is going to have
17 after this change takes place is one where he receives
18 a certain rate of return by way of dividend, but he
19 will be holding a share in a company which no longer
20 has retained earnings or an accumulation of corporate
21 profits.

22 Is your view that the Canadian individual is
23 going to be attracted by that new type of equity
24 share, or may there be a tendency on his part to go
25 to other countries where at least at the outset there
26 are equity shares available which are regarded as
27 having a more conventional growth factor and where the
28 dividends paid ^{out are} / smaller and therefore the amount of
29 income tax the individual pays is smaller?

30 MR. CAPON: I am afraid we are getting into



1 some advanced economics here. It would take me a
2 long time to answer it. But I think you have to
3 recognize that the amount of money flowing to the
4 shareholder is the same whether it is retained or
5 whether it is paid out. In other words, the share-
6 holder is just as well off in getting his dividend to
7 saying he can't have it. I suppose the average
8 Canadian is sufficiently intelligent to understand
9 that the Canadian company is now offering something
10 better, because he can shift his investment elsewhere,
11 but above all he is free to do it. I am concerned
12 only with trying to emphasize that we should get rid
13 of what is, in fact, a senseless tax and to make it
14 possible to supply more revenue.

15 We would have to go into a vast amount of
16 other economic factors and it would take twice as long.

17 THE CHAIRMAN: May I ask, Mr. Stewart, how
18 long you will be?

19 Mr. STEWART: I will go on as long as you
20 permit me to, Mr. Chairman.

21 THE CHAIRMAN: I think I will have to say that
22 you call it off at this point, save only for a few
23 questions from ourselves. I have one or two questions
24 which I think are very simple and which I think can
25 almost be answered by a yes or no.

26 Do I understand, Mr. Capon, that you would
27 not think it worthwhile for this Commission to become
28 deeply interested in the incidence of the corporate
29 tax?

30 MR. CAPON: No.



1 THE CHAIRMAN: On page 19 you mention that
2 the total industrial expansion financed without the
3 issue of new equity securities is something over
4 90 per cent for all of North America, and I question
5 the validity of that figure wondering if the internal
6 expansion is actually that or if it is to some
7 extent replacement of existing facilities.

8 MR. CAPON: These, Mr. Chairman, are total
9 figures for all industrial capital expenditures, so
10 it would include replacement expansion and everything
11 else.

12 THE CHAIRMAN: On page 8 you suggest that
13 sales and excise taxes rose sufficiently to influence
14 buying and to cause large scale tax evasion.
15 Certainly income tax has been indicted on that score,
16 and I have now heard it extended to excise tax. Do
17 you believe there is any wholesale tax evasion?

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1 MR. CAPON: The moment they get to any worth-
-1/AG/Je 2 while haight, yes. It is similar to widespread
3 smuggling we have had in this country from time to time.

4 THE CHAIRMAN: Those are my little
5 questions. Has anyone else got any little questions?

6 COMMISSIONER BEAUVAIS: Yes Mr. Chairman
7 I have one little question. You talk about $7\frac{1}{2}$ per cent
8 to be held on distribution to foreigners. Would
9 you say that you would be in favour of retaining the
10 withholding tax on interest payments on the funded
11 debt, for instance?

12 MR. CAPON: Yes I would Mr. Beauvais. What
13 I have tried to do in that is simply say I don't
14 want to change the position of foreigners from where
15 it is at the present time, but to double the rate
16 on dividends.

17 COMMISSIONER BEAUVAIS: But on bond interest,
18 because it is discouraging foreign capital to come in?

19 MR. CAPON: Well, that is a problem for
20 our government. What I have said here is that I am
21 not trying to change the interest by taxation on
22 foreigners. If the government wishes to change the 15
23 per cent in order to give an incentive to borrow money
24 to come in, that is fine.

25 COMMISSIONER BEAUVAIS: You advocate that
26 pension funds should not buy equity?

27 MR. CAPON: That is right.

28 COMMISSIONER BEAUVAIS: But don't you think
29 that is an edge against inflation?

30 MR. CAPON: Certainly. As trustee of my



1 compapny's pension fund I am arguing that they should buy
2 it, but in theory I say that we should not let them
3 hold it, but as a trustee I am continuing to buy it.

4 THE CHAIRMAN: Mr. Walls, would you not
5 like to indicate that our witness has probably not
6 properly regarded the contribution of our farming
7 community to the wealth of the nation?

8 COMMISSIONER WALLS: No, I think I will pass
9 that up.

10 MR. CAPON: I would say that our farming
11 community is one of the heaviest capitalized industries
12 in the nation.

13 MR. STEWART: Mr. Chairman, could I put
14 in two exhibits, which I think would be helpful for
15 record purposes? I gave a copy to Mr. Capon, who may
16 be kind enough to comment informally at a later stage.

17 The first of these, Mr. Chairman, is a
18 document consisting of three pages, one relating to
19 Canada, the second relating to the United Kingdom, and
20 the third relating to the United States, which is
21 designed to show that in recent years, and in the case
22 of Canada since 1926, in the case of the United Kingdom
23 since 1870, and in the case of the United States since
24 1900, the share of labour in the national income has,
25 if anything, increased.

26 EXHIBIT NO. 21: Document showing
27 the share of labour
28 in the national
29 income in Canada,
30 the United Kingdom
and the United
States.



1 MR. CAPON: Is it fair to say, Mr. Stewart,
2 that this is total compensation? In other words, the
3 share of labour as such may have gone down, and the
4 share of salaries may have gone up?

5 MR. STEWART: It is possible, but I think
6 a noteworthy thing is the consistency of the figures.

7 MR. CAPON: Yes.

8 MR. STEWART: The other exhibit, Mr. Chairman,
9 consists of two pages, the first of which is taken from
10 1962 taxation statistics, which are published by the
11 Department of National Revenue. It consists of part
12 of page 39 of that publication, which relates to income
13 tax for the year 1960, and attached to it is a sheet
14 dated April 23rd, which purports to show, and I will be
15 glad to discuss this with Mr. Capon at a later stage,
16 that if the steps which he suggests were taken, more
17 particularly the abolition of the corporate income tax,
18 then there would be, or there would appear to be, a
19 serious drain on the revenue. That is that the
20 calculations which Mr. Capon says himself are rough,
21 but which appear in paragraphs 43 and 44 of his sub-
22 mission, would not be borne out.

23 I am sorry that I can't explain that in detail
24 at the moment, but I will discuss it later.

25 EXHIBIT NO. 22: Document contain-
26 ing 1962 taxation
27 statistics publi-
28 shed by the
Department of
National Revenue.

29 THE CHAIRMAN: Have you any more exhibits,
30 Mr. Stewart?



1 MR. STEWART: No sir.

F-4 2 THE CHAIRMAN: Well, I think it is well
3 perhaps if we pause in this questioning of Mr. Capon,
4 and it would seem to me that it might be very useful
5 indeed to come back to Mr. Capon later on. I think
6 we are all frustrated that we can't proceed further
7 with the questioning. I know Mr. Stewart is. I
8 know it is a dreadful thing to cut off our lawyer
9 in the middle of this, and I apologize most sincerely
10 to you Mr. Stewart.

11 I would just like to say, Mr. Capon, that
12 irrespective of the degree to which we may agree,
13 or disagree with, what you have brought before us,
14 we all sincerely recognize your great contribution
15 to the national good in going to the efforts which
16 you are in proposing this, not just to us, but to all
17 Canada. It is a very serious undertaking that you
18 have entered upon here, and should it only contribute to
19 the thoughts of Canadians, without changing the law,
20 it is still a very valuable piece of work.

21 We thank you immensely for appearing before
22 us this morning, and I regret only that we didn't
23 provide adequate time to deal with this thing as we
24 would have liked to. If you will bear with us,
25 I have every intention of proposing to my fellow
26 Commissioners that we invite you to come and see us
27 again later on.

28 MR. CAPON: Thank you very Mr. Chairman.
29 It certainly would appeal to me very much.

30 THE CHAIRMAN: Good. We stand adjourned



1 for five minutes.

2 ---Recess.

3
4 THE CHAIRMAN: Mr. Secretary, we are ready
5 to proceed. Would you please introduce to us the
6 next participant?

7 SUBMISSION OF THE
8 NATIONAL COUNCIL OF WOMEN OF CANADA
9 APPEARANCES:

10 Mrs. Saul Hayes, President

11 Mrs. W.R. Abbott, Honorary Solicitor

12 THE SECRETARY: Mr. Chairman, Mrs. Milne,
13 and ladies and gentlemen, we have now a brief being
14 presented by the National Council of Women of Canada.
15 Mrs. Saul Hayes, the President of the National Council
16 is with us this morning and Mrs. W.R. Abbott, the
17 Honorary Solicitor of the Council.

18 I enter the brief into the record as
19 Exhibit No. 23.

20 EXHIBIT NO. 23: Brief of the
21 National Council
22 of Women of
Canada.

23 THE CHAIRMAN: Good morning Mrs. Hayes and
24 Mrs. Abbott. We are delighted to receive your sub-
25 mission to us, which we have read with interest. Some
26 persons appearing before us like to say a few words with
27 reference to their brief, to summarize or amplify, and
28 speak to it. Others prefer that we proceed to ask
29 questions. We have a few questions, and we can take
30 whichever course you like.



1 MRS. HAYES: Could we have a little bit
2 of both Mr. Chairman?

3 THE CHAIRMAN: You may.

4 MRS. HAYES: I am sure that the chairs
5 being very low at this end of the room isn't deliberate.
6 I know I feel as if I had my chin on the table.

7 THE CHAIRMAN: You can stand or sit as you
8 wish.

9 MRS. HAYES: No, I am very comfortable.

10 Mr. Chairman and Commissioners, we are
11 of course tremendously pleased to have the opportunity
12 of appearing before you, and we would certainly like
13 to take advantage of being here to amplify orally
14 what is contained in the brief.

15 It might interest you to know that the
16 submission, as is stated on the first page, is based
17 on resolutions of the National Council of Women of
18 Canada. This means that these studies had gone
19 across the country to be studied, and that this is
20 a considered opinion expressed, if not by all, by the
21 majority of some 700,000 women from coast to coast.
22 We certainly don't appear before you as a body of
23 experts, but we must admit that we do have in our
24 personnel many people with expertise, but I certainly am
25 not here as a tax expert. Not at all.

26 Our brief is very simple. We are interested
27 in trying to correct what appears to us after study,
28 all the inequities that exist, particularly affecting
29 and within your terms of reference we are here to speak
30 about conditions of individuals, and those individuals



1 happen to be women. We make no apologies of course,
2 for trying to interest you in the trying to create
3 an equitable situation for women, who are now in
4 Canada regarded as persons, as you know.

5 COMMISSIONER WALLS: I can assure you that
6 we are all interested in women.

7 MRS. HAYES: Good. Very good. The brief
8 deals very simply and very directly, as you know
9 Mr. Chairman, with four or five issues. The Estate
10 Tax area contains two submissions on our part, or
11 two suggestions for change, and with your permission
12 I should like to have you invite Mrs. Abbott to
13 comment more particularly on the contents of the brief,
14 and then certainly I am quite sure she will receive
15 questions from the Commission, Mr. Chairman, quite
16 gladly.

17 THE CHAIRMAN: Thank you Mrs. Hayes.
18 Certainly I would like to remark that it is an amazing
19 achievement to have secured the consensus of opinion
20 of 700,000 women, or men for that matter, 700,000 people.
21 I would like to hear a little more about the
22 committee procedure, if Mrs. Abbott would care to start
23 off that way. You tell me, Mrs. Hayes, that this
24 has been arrived at as a result of committee work, and
25 I was just wondering how one could have local committees
26 that filter down to a brief like this?

27 MRS. HAYES: Yes. We have 13 national
28 standing study committees, one of which is economics,
29 one of which is legislation and another is on social
30 welfare, et cetera. We have 57 local councils, and we



1 have counterparts of these 13 national standing study
2 committees locally, for example in the Montreal Council
3 of Women, one of the 57, there would be local standing
4 study committees on legislation, on economics, and so
5 on. The organized societies, we have 21 nationally
6 organized societies in the Federation, as well as the
7 57 local councils and 7 provincial councils. We
8 an organization of organizations of clubs, organizations
9 are of various sorts. We are a Federation.

10 Now, any constituent member has the right,
11 after study, preliminary study within their make-up,
12 to submit to the Executive Committee of the National
13 Council of Women their resolution, or resolutions,
14 sometimes several resolutions may come dealing with
15 the same subject. This may be in at a given date,
16 and at the mid-year executive meeting they are con-
17 sidered, simply whether they are acceptable for study.
18 If they may be received for study, they must be
19 national in scope and various other things that wouldn't
20 interest you particularly. They are then distributed
21 to our constituent members for study from the end of
22 January or February until June. In June, at the
23 annual meeting, these resolutions are then presented for
24 voting, and the representatives of the constituent
25 members are there with a directed vote, and this is all
26 based on study, from getting background from the
27 National Chairman down -- of course, this is a two-way
28 process, and doing their own study within their own
29 competence at the various levels. It is truly a
30 considered opinion and reflective of this large



1 membership.

2 May I just say one other thing, Mr. Chairman,
3 and that is when a resolution deals with matters,
4 perhaps such as these, it is contained in a petition
5 that the National Council of Women presents to government.
6 It has been the practice over the years that the
7 National Council of Women is received by the Prime
8 Minister and members of his cabinet once a year, where
9 our resolutions dealing with such matters are discussed
10 and presented. Our reception is always good, and
11 we sometimes even get a little bit done.

12 THE CHAIRMAN: Thank you Mrs. Hayes.

13 COMMISSIONER GRANT: Mrs. Abbott, may I
14 refer directly to the example which you have used
15 on the third page of your brief?

16 THE CHAIRMAN: Paragraph 6?

17 COMMISSIONER GRANT: Yes, and ask for
18 a clarification of something there. We note that in the
19 treatment of the Estate Tax Act that you limit yourself
20 really to two phases of the Act. One is the pension
21 and annuity provisions, and the other is your
22 representations for increased deductions.

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1 Now, with respect to the pension and annuity
2 provision, you use an example, and if I may I will
3 outline what is my understanding and I think perhaps
4 the understanding of the Commissioners and ask you to
5 correct me if I am wrong.

6 You take the value factor, which in this case
7 is in the round figure of 15, and with that you
8 capitalize the life interest of the annuity. Then when
9 you say in the next line that the value of the pension
10 is half of the value of the estate, I take it that you
11 are just using that as a convenient example, that the
12 value of the pension could be one-fifth of the value
13 of the estate.

14 MRS. ABBOTT: Yes, it is just an example.

15 COMMISSIONER GRANT: And when you say the
16 value of the estate, you are referring to the gross
17 value of the estate.

18 MRS. ABBOTT: That is right.

19 COMMISSIONER GRANT: Not the taxable value

20 MRS. ABBOTT: No.

21 COMMISSIONER GRANT: Then having determined
22 the proportion the pension bears to the whole of the
23 estate, you would advocate that that percentage be
24 used to determine the contribution which the pension
25 should make to the tax.

26 MRS. ABBOTT: Yes, sir.

27 COMMISSIONER GRANT: That's fine, Mrs. Abbott.
28 That is our understanding, and naturally we have no
29 argument to make with that, we are accepting it as
30 a well-considered proposal.



G-2

1 Another phase of the submission which I
2 should like to refer to is where you urge that on the
3 death of the husband one-half of the aggregate taxable
4 value of the estate should be regarded as belonging
5 to the widow, or perhaps you say one-half of the
6 estate as belonging to the widow. Could we have
7 clarification on that?

8 MRS. ABBOTT: I don't understand what you want
9 clarified. But it is the same as any community
10 property, when one-half belongs to the wife and the
11 other half belongs to the husband.

12 COMMISSIONER GRANT: Would you consider that
13 on the death of the wife, if such a provision were
14 inserted in the Act, that that one-half of the value
15 of the husband's estate would be part of the assets of
16 the wife's estate on her death?

17 MRS. ABBOTT: Oh, yes.

18 COMMISSIONER GRANT: Then it would have a
19 bearing whether you were to take one-half of the gross
20 value of the estate or one-half of the taxable value.

21 MRS. ABBOTT: I admit I hadn't thought of that.
22 We meant the gross value, not the taxable value.
23 I don't think it is explained clearly in the brief.

24 COMMISSIONER BEAUVAIS: You mean the gross
25 value of the estate would be deemed to be the wife's
26 or the husband's property?

27 MRS. ABBOTT: Half and half, sir.

28 COMMISSIONER BEAUVAIS: It would apply also
29 when the wife died before her husband?

30 MRS. ABBOTT: Yes, sir.



G-3

1 COMMISSIONER BEAUVAIS: Vice versa.

2 MRS. ABBOTT: Yes.

3 MRS. HAYES: We have no intention of being
4 discriminatory.

5 COMMISSIONER GRANT: The purpose of this
6 submission would be that the widow would then have the
7 use during her lifetime of what would amount to one-half.

8 MRS. ABBOTT: Yes.

9 COMMISSIONER GRANT: It would be a postponement
10 of the tax, and perhaps one would expect a lower rate
11 on her death.

12 MRS. ABBOTT: Yes.

13 COMMISSIONER BEAUVAIS: The total amount would
14 be taxed eventually.

15 MRS. ABBOTT: Yes.

16 COMMISSIONER BEAUVAIS: But when you have
17 life expectancy and the capital is left to the children,
18 for instance, you would suggest the same treatment.

19 MRS. ABBOTT: I would say yes.

20 COMMISSIONER BEAUVAIS: I have another question,
21 In Section 4 of your brief you say that the
22 payment of tax works hardship on the widow, as it must
23 be paid in not more than six equal annual consecutive
24 instalments; and then you suggest that the payment of
25 the estate tax would be prorated on the number of years
26 that the life expectancy is.

27 MRS. ABBOTT: Yes.

28 COMMISSIONER BEAUVAIS: For instance, if it
29 is 15 years, then the death duties would be one-fifteenth
30 each year.



G-4

1 MRS. ABBOTT: Yes.

2 COMMISSIONER BEAUVAIS: Do you suggest that
3 the interest should be paid on the unpaid balance?

4 MRS. ABBOTT: No, sir.

5 COMMISSIONER BEAUVAIS: You wouldn't?

6 MRS. ABBOTT: I wouldn't, no, sir.

7 COMMISSIONER BEAUVAIS: Supposing that the
8 widow lived in such a case twenty years, would you
9 suggest that the payment would continue until her
10 death?

11 MRS. ABBOTT: No, we would consider that it
12 was discharged after the time determined.

13 THE CHAIRMAN: Is that fair, Mrs. Abbott?
14 Could it be discharged in a lesser time than the life
15 expectancy?

16 MRS. ABBOTT: Well, it has been prorated in
17 the first place on the life expectancy. You might
18 say it is unfair in our later suggestion that if the
19 widow dies before the time on which it has been prorated
20 it has been ^{dis}charged; I suppose you could call that
21 unfair. But I don't think the other one is unfair,
22 where the tax has been paid in full.

23 THE CHAIRMAN: If the arrangement was that prior
24 to death to discharge the liability, surely a corollary
25 to that would be that should the widow carry on beyond
26 normal life expectancy, should not the one compensate
27 the other? If this is a new thought, would you
28 like to think about it at your leisure and write us
29 a letter?

30 MRS. ABBOTT: Surely.



1 COMMISSIONER BEAUVAIS: Maybe you could think
2 of another alternative, too, that the assessment could
3 be revalued, a reassessment at that time, because
4 supposing it was 17 years instead of 15 years, then
5 the reassessment would be made.

6 MRS. ABBOTT: Revalued at the end of the
7 period, yes.

8 COMMISSIONER GRANT: Mrs. Abbott, when you
9 arrived at a term of 15 years, would it be correct to
10 say that you felt that once the tax had been determined
11 the payment could be spread over that 15-year period?

12 MRS. ABBOTT: It was our original thought,
13 yes, sir.

14 COMMISSIONER BEAUVAIS: You advocate reduction
15 for income tax purposes of the taxable income of the
16 estate to an amount equivalent to death duty.

17 MRS. ABBOTT: Yes.

18 COMMISSIONER BEAUVAIS: Would you explain to
19 us why you suggest this method?

20 MRS. ABBOTT: Why we advocate the reduction of
21 the income tax? Because at the present time there is
22 double taxation on the estate, on property on which
23 there is succession duty, what is not even a tangible
24 asset of the estate, and at the same time the income
25 tax is being paid. We advocate that this is double
26 taxation, which is unfair and inequitable and which
27 doesn't prevail in other areas.

28 COMMISSIONER BEAUVAIS: In other words, you
29 are stating that the income tax would be paid on an
30 amount never received.



1 MRS. ABBOTT: Yes.

2 COMMISSIONER BEAUVAIS: This situation would
3 happen, say, in investments of capital. It is the
4 same thing. Except that in this case there is a
5 tangible asset that can be passed on; is that right?

6 MRS. ABBOTT: It is quite different.

7 COMMISSIONER BEAUVAIS: Oh, yes.

8 MRS. ABBOTT: You cannot use something you
9 don't have. It is a very nebulous thing.

10 I would like to say, Mr. Carter, that we
11 believe that in the case of succession duty as regards
12 the widow it would create very little fluctuation in
13 the national revenue. We have not been able to get
14 any figures on it, but there was a statement quoted
15 in Hansard of August 12th, 1958, when this present
16 tax Act, the Estate Tax Act, was being considered by
17 the Special House Committee by Mr. Benidickson, who
18 said:

19 "The Committee may be interested
20 to know that only about one per cent
21 of our national revenue comes from
22 this sort of taxation. This same
23 informant has done some further
24 arithmetic for me, as a result of
25 which he makes the assertion that if
26 there were an exemption of even up to
27 \$150,000 for all estates the loss of
28 revenue would be only one-quarter of
29 that one per cent which I indicated
30 was received from this form of taxation.



1 He stated further that if we
2 exempted all estates below \$100,000
3 the government would lose only 15
4 per cent of the one per cent
5 indicated as received from estate
6 duties."

7 Now, I realize from such a statement in Hansard
8 we cannot determine the exact amount, but it certainly
9 is relevant to say that it would only be a very small
10 loss to the national revenue and probably would be off-
11 set in that the widow would be more self-sufficient,
12 more independent. These are, at least as far as I
13 am concerned, impossible to measure.

14 COMMISSIONER GRANT: On that basis, Mrs. Abbott,
15 a rough calculation would mean the loss of \$10 million
16 to the Department of National Revenue.

17 MRS. ABBOTT: From what I have seen of the
18 Internal Revenue, it is very small. We did not pursue
19 our policy in regard to half of the estate because we
20 felt that this would not be acceptable. It is our
21 ideal and we think it is right. But even an
22 increase to the extent of \$100,000, on the basis of
23 this statement it would mean a loss of one-fifteenth
24 of one per cent to the National revenue, which is less
25 than \$1 million.

26 Also in relation to children, it is particularly
27 important in the cost of educating children, which in
28 the final analysis is contributing to our economy.
29 Children must be educated if they are to take their
30 place in the labour force, and anyone who has children



1 knows that a \$1,000 a year exemption is very small, and
2 the average widow left with a family of children
3 cannot expect to educate her children on her income.
4 I have a personal friend whose husband was killed in
5 October and she was left with five children approaching
6 university age. She is obviously not going to be
7 able to educate those children, even though her husband
8 was in the higher income bracket, and this would be a
9 loss to the economy. That is the sort of thing that
10 could happen under the present tax structure.

11 THE CHAIRMAN: Would your proposal make a
12 difference to that widow?

13 MRS. ABBOTT: I don't know. In fact, she
14 doesn't know herself, with all the complications of
15 tax nowadays. She doesn't know what her position
16 is; she is living on air. But the \$1,000.00 would
17 be a help. It would go a long way towards helping,
18 put it that way, because most men do carry heavy
19 insurance policies, and this is the first thing that
20 goes for taxation purposes, of course.

21 COMMISSIONER BEAUVAIS: Coming back to the
22 example in paragraph 6, would you tell me what pension
23 was taken as a basis for this exemption, because you
24 mention total estate tax payable of \$3,000.00?

25 MRS. ABBOTT: This was just an estimation, sir;
26 we didn't take any particular figure. It was just
27 an example to indicate the way in which we would like
28 the tax to be paid.

29 THE CHAIRMAN: Can we move to paragraph 10,
30 employed spouse? The difficulty there, I believe,



1 would be an administrative one, in the determination of
2 what, in fact, was a salary or an emolument between
3 a husband and wife. It occurred to us it may be
4 rather difficult for the Department of National Revenue
5 to assess such alleged salaries. Do you think
6 there would be difficulties?

7 MRS. ABBOTT: I don't see why it would be
8 difficult. If they were incorporated, surely the
9 same conditions would prevail, and in that case they
10 would be able to file separate returns. I can't see
11 any difference to a small incorporated company. It
12 might be administratively difficult, but I can't see
13 that administrative difficulty ever justifies an
14 inequity.

15 We have been told that in the case of double
16 taxation we would have to keep our files open too long.
17 I feel the government keeps its files open a long
18 time if it is in their own interest. I cannot see
19 that this is a valid argument. There are certain
20 wage rates which could be determined.

21 THE CHAIRMAN: For example, for what types of
22 services should the wife be paid? It might be a
23 little hard to distinguish between those services
24 which are normal to the household, where one should
25 expect the wife to be reimbursed, such as making
26 meals for the children, and so on.

27 MRS. ABBOTT: This is not implied in this
28 arrangement. Supposing a small shop keeper, the
29 little corner grocery store, has his wife clerking
30 in the store, surely that is not something



1 a man expects from his wife.

2 COMMISSIONER MILNE: Mrs. Abbott, I am sure
3 you must have anticipated that there would be
4 questioning on this particular item with respect to
5 abuses which the Department might anticipate, rather
6 than in the areas of administration, and we know that
7 this is something which has been discussed rather
8 fully, the abuses which would be almost certain to
9 arise.

10 Have you any suggestions to offer as to how
11 this would receive treatment? There would have to be
12 delineations as to the classification of the work
13 which a wife would do in the circumstances.

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1 MRS. ABBOTT: Well, it is just exactly
H-1/AG/je 2 what it says, Mrs. Milne. If you are operating a dry
3 cleaning establishment and your wife is behind the
4 counter, she would be paid on the same basis as an
5 independent person would be paid if she were behind
6 the counter, working the same number of hours.

7 COMMISSIONER MILNE: Well, in the case
8 of an office, where the husband, the employer spouse,
9 was a professional person and couldn't incorporate, what
10 then about the duties of the wife?

11 MRS. ABBOTT: It would depend upon his
12 profession. Possibly she might also be a professional
13 person.

14 COMMISSIONER MILNE: I am only just
15 suggesting, suppose she was not a professional person?

16 MRS. ABBOTT: I think secretarial work would
17 be the obvious one in the case of a professional
18 person, clerical work.

19 THE CHAIRMAN: How about public relations?
20 I am a chartered accountant, required to do a certain
21 amount of entertaining for the benefit of my own
22 business, in which my wife participates with, I think,
23 enjoyment, but I suppose that she could well make a
24 case that this was a perfect nuisance to her, and she
25 would expect to be reasonably reimbursed for these
26 types of services?

27 MRS. HAYES: Mr. Chairman, I am privy to
28 the thinking that went into this resolution, and I sit
29 in amazement to hear how many abuses might be used
30 for those who want to evade the law which may be set up



H-2 1 for the protection of this if it came about. Your
2 very first statement, I think, indicated this kind of
3 worry, or anxiety, about this alleged partnership,
4 you said, or alleged work, and our thinking certainly
5 was based very directly on the inequity as it exists
6 at the present time, and how this could be corrected.

7 As far as abuses are concerned, certainly
8 there are abuses in the case of income tax. We heard
9 this morning that there are abuses, or study of how
10 to have evasion of corporate tax. We have people in
11 the jails too, who avoid obeying the law. There are
12 sanctions, there are penalties, and we certainly don't
13 plead for special attention for persons, including
14 women, who don't obey the law. It is the same with the
15 unemployment insurance benefits. If they don't stick
16 to the rules which will entitle them to benefits, then
17 they must be subjected to the same penalties as anybody
18 else.

19 THE CHAIRMAN: Mrs. Hayes, you are
20 assuming evasions. We are not necessarily speaking
21 of evasions, but of the difficulty of drawing rules.
22 It is extremely difficult to draw rules as to which
23 service is entitled to remuneration and which is not
24 under these circumstances, just as it is difficult to
25 draw rules at the present time as to living expenses
26 and business expenses. We have a pretty good under-
27 standing of the distinction between living expenses and
28 business expenses, but I really think that in these
29 kind of services it would be very difficult to draw
30 rules. Not impossible, only difficult, and if it were



H-3

1 of special importance, undoubtedly the problem can be
2 met.

3 MRS. ABBOTT: Mr. Chairman, may I suggest
4 that the abuses would probably be offset by the gains
5 in a case like this. As Mrs. Hayes says, there are
6 always abuses, unfortunately, companies buying fancy
7 rugs, but we certainly never envisaged the case of
8 a wife entertaining for her husband for instance.
9 The case of a businessman, this is a legitimate business,
10 and it is directed to the expenses which are so great
11 as to be unwarranted. The small dry cleaning
12 establishment for instance.

13 THE CHAIRMAN: The wife keeping the books
14 for her husband?

15 MRS. ABBOTT: Yes, it surely is a legitimate
16 business operation.

17 THE CHAIRMAN: I think it is not easy to
18 define.

19 MRS. ABBOTT: Of course it is not easy to
20 define, but none of these things are clear-cut, are they?

21 COMMISSIONER WALLS: I would like to ask a
22 question, but it is dealing with a paragraph a little
23 further on. Have we finished with the spouse?

24 THE CHAIRMAN: Fees to Special Schools is
25 the next section. Is that where your question is
26 Mr. Walls?

27 COMMISSIONER WALLS: No, I was going to jump
28 a little further along, to about paragraph 18.

29 THE CHAIRMAN: Well, let's take them one by
30 one.



1 COMMISSIONER WALLS: Yes.

2 COMMISSIONER MILNE: Mrs. Abbott, I was
3 going to suggest that you refer to paragraph No. 12.
4 I thought that possibly you might elaborate a little
5 bit there for the benefit of the Commission and give your
6 reasons for tying this particular recommendation down
7 to attendance at school, or providing education in this
8 manner, for the mentally retarded.

9 I note from making some inquiry myself
10 that you do have a reason for suggesting this, and I
11 think it would be helpful for the Commission if you
12 would elaborate on this.

13 MRS. ABBOTT: As you know, we deal only
14 with special recommendations. We have an instructed vote,
15 so to speak, and the retarded have been, until the
16 last ten years, the neglected members of our community.
17 There are still extremely inadequate facilities.
18 They vary from province to province. Some provinces have
19 very good facilities, and some provinces have very
20 poor facilities, but there is still this uneducable
21 group who on the whole have to be trained at the expense
22 of their parents. Sometimes it is done in private
23 schools, sometimes through parents' groups organizing
24 schools and so on, but it all comes out of the parents'
25 pocket. These children can be trained so that they
26 are -- sometimes they can be eventually trained so
27 that they are no charge on society whatsoever. Sometimes
28 they are trained to the point where they will be much
29 less of a charge on society than they would have been
30 without training. They can be trained to do simple



1 operations which would have to be done for them other-
2 wise.

3 Obviously this type of training is extremely
4 expensive, and many parents, because of this expense,
5 are not able to put out the money for it, and some
6 of them, unfortunately of course, are not willing,
7 but on the whole it is the case of the parents not
8 having the money. It is an extreme hardship on some
9 of those who do put out the money. It often redounds
10 to ill will against the normal children in the family,
11 because they don't receive what normally would be
12 their right.

13 It is a field in which people become
14 emotional. I am fortunate, I don't have a retarded
15 child, but I have seen how this operates, and I feel
16 that in our society we should consider these parents
17 until such time of course as there are government
18 provisions made for them, government training schools,
19 and so on, but I am afraid that is in the very, very
20 rosy future. We make progress, but not nearly as
21 great progress as we would like to see.

22 COMMISSIONER MILNE: I knew that you had
23 thought of schooling/^{already}being provided for the deaf.

24 MRS. ABBOTT: Yes, most of the other handi-
25 capped seem to have had provision made for them, and
26 also there is the fact that a lot of the handicapped
27 come under hospitalization schemes, and so on, the
28 physically handicapped. But the retarded who are
29 not physically handicapped, again of course there is an
30 overlapping, many of them are also physically handicapped,



1 but the training schools are extremely expensive and
2 extremely important, and there is no tax exemption under
3 our present legislation, and as I point out in the
4 brief we have many, many examples in the Act of special
5 tax exemptions for special purposes. This is not
6 establishing a precedent.

7 I understand that in some cases Departmental
8 rulings do allow it, but surely these parents should
9 have it as of right. I have heard that, but I can't
10 give you an authority for it, that sometimes a
11 Departmental ruling will allow a deduction

12 COMMISSIONER MILNE: In connection with
13 your paragraph 14, and it is a matter of clarification
14 for my own benefit at least, where you submit that
15 fees paid to recognized schools would be deductible
16 from taxable income, now, in saying the "fees"
17 paid, do you mean by that that the child must attend,
18 or do you mean that a fee would be paid to this school,
19 where a teacher might come to the home?

20 MRS. ABBOTT: No, the child must attend the
21 school.

22 THE CHAIRMAN: The National Council is
23 directing its attention, I presume, to repairing this
24 gap in the public welfare programs of our provinces,
25 are you?

26 MRS. ABBOTT: The gap in the education of
27 the retarded?

28 THE CHAIRMAN: Yes.

29 MRS. ABBOTT: Oh, very definitely, but this
30 of course is an extremely thorny matter. In Quebec



1 particularly there is quite a distinction between
2 training and educational -- there are so many different
3 complications in this field. I don't think that there
4 is any uniformity in the provinces. Ontario is
5 particularly good, and unfortunately in Quebec we
6 are making progress, but it has been really within
7 the last ten years that we have even made a small
8 dint in the problem.

9 THE CHAIRMAN: We in Ontario are not entirely
10 satisfied.

11 MRS. ABBOTT: No, but you are ahead of us, un-
12 fortunately.

13 THE CHAIRMAN: The next heading I think
14 is Deductions for Servant Under the Income Tax Act.
15 Do you have any comments on that?

16 Sales Tax on Drugs.

17 COMMISSIONER WALLS: Ladies, you will
18 realize that under the terms of reference of this
19 Commission, one of them and perhaps the principal one
20 is that we have to evolve a tax structure that will
21 supply sufficient revenue. Now, your representations
22 today, which are very, very good, deal entirely with
23 tax reductions, and I am sure that everybody would
24 sympathize with that type of approach, but when we
25 come to sales tax on drugs, you will realize that
26 that, of course, is going to make another reduction in
27 revenue of about \$10 million a year, and that we already
28 have exemptions, which amounted some/over \$300 million
29 per year under the Sales Tax Act.

30 Is your feeling first of all that there



1 should be more exemptions under this Act, or if we
2 decided to broaden the base, and have to narrow the
3 amount of exemptions, what products do you think should
4 be exempt? I mean over and above the one you are
5 putting forward of drugs?

6 MRS. ABBOTT: And food.

7 COMMISSIONER WALLS: Not clothing?

8 MRS. ABBOTT: No. May I say that while we
9 perhaps on the surface it looks as though we are
10 simply asking for reductions, I think we have pointed
11 out all along that there is going to be a balance,
12 an offsetting in all these reductions.

13 COMMISSIONER WALLS: Well, we are looking
14 for these balances?

15 MRS. ABBOTT: Well, we have only asked
16 for reduction of sales tax. We have never, to my
17 knowledge, considered reduction in other areas. It
18 is simply food and drugs which are necessary to maintain
19 health.

20 COMMISSIONER WALLS: Well, would you give
21 up for instance cleaning materials and compounds
22 in order to get drugs? You see, you already get an
23 exemption on cleaning materials and compounds.

24 MRS. ABBOTT: Well, I could scarcely speak
25 for the Council, but personally, since this has never
26 been considered, I feel that drugs are definitely more
27 important.

28 COMMISSIONER WALLS: Thank you.

29 MRS. HAYES: Mr. Chairman, if I may add
30 a word to this, although it is not clearly stated in



1 paragraphs 18 and 19, our particular interest in this
2 area, may I orally point out that I think that this
3 resolution emerged from the great concern for,
4 for example, the elderly people in Canada, who of course
5 must use many more drugs than many of the younger ones
6 who are the beginning of their life. I don't
7 mean babies and teenagers, who must of course have some
8 kind of vitamins and whatever, but it did I think
9 arise originally out of this great concern for the
10 tremendous cost of drugs that must be paid by the elderly,
11 who very often have to live solely on their old age
12 pension, which perhaps is inevitable insufficient, as
13 it now stands, but certainly it is extremely difficult
14 to stretch that dollar to provide for the drugs that
15 they need.

16 THE CHAIRMAN: Sales Tax on margarine.

17 COMMISSIONER WALLS: I might be
18 considered a prejudiced questioner on that one.

19 THE CHAIRMAN: Well, I think that we all
20 recognize that margarine is taxed, and competing
21 foods aren't.

22 That I think completes our questions.
23 Certainly we will further consider what you have put
24 before us, and as a result of our discussion if there
25 is anything you would like to add we would be very
26 pleased to receive a letter.

27 We thank you very much indeed, Mrs. Hayes
28 and Mrs. Abbott, for coming to see us today, and
29 giving us the help which you have.

30 MRS. HAYES: We thank you very much..



1 Mr. Chairman, for being so patient and informal, and
2 letting us speak whenever we wanted to. That makes
3 it very agreeable, I assure you, and we are most
4 appreciative of having this opportunity, and I think it
5 was very kind of you to allow us the opportunity to
6 send further communications, based of course on our
7 submission, if we have something to say.

8 Thank you very much.

9 THE CHAIRMAN: We will stand adjourned for
10 five minutes.

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12 ---Recess.

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1 THE CHAIRMAN: Mr. Secretary, before
2 proceeding to the next participant, you have something
3 you wish to put before us, have you not?

4 THE SECRETARY: Sir, I would like to enter
5 into the records as Exhibit No. 25 the submission of
6 Mr. C.W.R. Vallance, of 3550 Ridgewood Avenue, Montreal.
7 This has been before the Commission. Mr. Vallance
8 did not wish to appear this morning.

9
10 ---EXHIBIT NO. 25: Submission of Mr.
C.W.R. Vallance.

11
12 SUBMISSION OF MR. C.W.R. VALLANCE
13 (No appearance).

14 THE CHAIRMAN: Thank you.

15 THE SECRETARY: Mr. Chairman, we have with
16 us this morning Mr. M. Furman, who wishes to speak
17 to his brief, which is in the name of Furman Construction
18 Company Limited. This brief I enter into the records
19 as Exhibit No. 24.

20
21 ---EXHIBIT NO. 24: Submission of Furman
22 Construction Company
Limited.

23 SUBMISSION OF FURMAN CONSTRUCTION COMPANY
24 LIMITED

25 APPEARANCE: Martin Furman

26 THE CHAIRMAN: Good day, Mr. Furman. We have
27 your submission, which we have read with interest. Do
28 you wish to speak further to it?

29 MR. FURMAN: No, not necessarily. I hope
30 I am not going to waste the Commission's time, because



I-2 1 I am not an expert on tax. I am just bringing to
2 your attention a few things which I thought it was
3 right to do, which I explained in my letter. Do you
4 wish me to read the letter?

5 THE CHAIRMAN: We have all received copies of
6 your letter, and we have certain questions which we
7 will raise with you. I think it is very good of you
8 to put forward your own experience, because it is in
9 these experiences that we learn more about taxation
10 in Canada because people like yourself come forward
11 and tell us their problems.

12 Now, your problem turns on the treatment by
13 the Department of certain expenditures concerned with
14 the development of a new town site. Am I correct?

15 MR. FURMAN: Yes.

16 THE CHAIRMAN: And you incurred in the years
17 1956, 1957 expenses concerned with the services of
18 town planners, architects and engineers.

19 MR. FURMAN: Yes.

20 THE CHAIRMAN: You thought that these would
21 be deductible from the income of your firm from all
22 sources, I take it in those years, and the Department
23 decided that they were not deductible in those
24 years and must be added to the cost of the town site
25 which you were developing.

26 MR. FURMAN: Right.

27 THE CHAIRMAN: Now, what I would like to know
28 really is, is the nature of the town site a development
29 project in which you were going to sell lots or going
30 to build houses? What does the town site look like?



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1 MR. FURMAN: It was our intention to build,
2 because I am in construction since 1932, and I have
3 developed several places, houses, and this was a dream
4 of my life, to assemble one place and build a town,
5 a satellite town. I based my expenses on the
6 previous way of doing business. For instance, we had
7 many times before 1956 expenses for engineering, and
8 architects, and so on, and those always applied as
9 current expenses and were approved. As I mentioned
10 in the letter, the latest approval was in 1955. Well,
11 I based it on this principle, that income tax people
12 will not disturb anything that is already established
13 and operating on that type of thought we had a sizeable
14 income on which we paid income tax, considerably more
15 than what we spent on development. So it was not all
16 expenses in new development, but there was a tax,
17 as a matter of fact, nearly twice as much paid to
18 the government as to our project. I mentioned this
19 during examination of our books by the income tax
20 inspector, and his announcement was that he will
21 disallow all our expenses in connection with the
22 project. I tried to point out that if he insisted
23 on forcing us to change our way of business which was
24 already established over a period of twenty years it
25 would cause irreparable damage to our business and
26 force the company into liquidation. The inspector's
27 answer was that he would not look at those items if
28 it was a big corporation, but being a small company
29 handled by one man the government would lose money.
30 So he said he had to apply every rule available to



I-4 1 him. The principle of doing business before did not
2 apply in this case. If I die or am killed the
3 government will get succession duty, and all the money
4 spent on engineering would be worthless.

5 As a matter of fact, I went a little further,
6 because I believe in my way I was doing it right. I
7 appealed this and at the same time I sent a letter to
8 the Prime Minister and sent a copy to the Minister of
9 National Revenue, explaining that if they insisted on
10 changing our way of business we will be in a very
11 bad shape and the biggest loser will be the government,
12 because we have to close down and there will be
13 unemployment, and so on. I had a letter from the
14 Prime Minister, very nice and sympathetic with me,
15 and it said that he was sending his recommendation
16 to the Minister of National Revenue to settle things
17 to my satisfaction, and the Minister of National
18 Revenue sent me another letter and said he was sending
19 two special men to come to some agreement, they are
20 ready to come to some concession, in consideration of
21 me withdrawing the complaint that I had already filed.
22 They came and we were chatting for two or three hours.
23 It was always the same story, the government needs
24 money and all that stuff, and you try to beg. They
25 offered a certain concession in which we understood
26 we would receive about \$10,000.00 refund, and in the
27 following years it will be based on certain things.
28 I signed a release and withdrew the complaint, and
29 we received only \$600.00, which was sort of shocking
30 to us. There was a mixup in the understanding



I-5 1 between the inspectors and themselves.

2 I thought I would bring it to your attention.

3 It might in the long run help, probably not me
4 necessarily, but some others throughout the country.

5 THE CHAIRMAN: Mr. Furman, upon the carrying
6 out of your town site you would normally obtain the
7 revenue from that by the sale of property and houses,
8 I suppose?

9 MR. FURMAN: Of course.

10 THE CHAIRMAN: Yes, I understand the problem.

11 Well, we are very pleased that you have
12 brought it before us, Mr. Furman. Thank you. It gives
13 us a certain understanding of a matter of importance.
14 It is nice of you to do so. Thank you very much.

15 We stand adjourned.

16 ---Adjourned.

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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

MONTREAL

P. Q.

VOLUME No.:

DATE:

8

April 25, 1963

OFFICIAL REPORTERS

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LA COMMISSION ROYALE D'ENQUETE
SUR LA FISCALITE

Assemblee dans Chambre 404 Edifice McConnell
Engineering, Universite McGill, Montreal, Quebec
le 25em jour Avril 1963.

COMMISSION:

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M. J Harvey Perry

M. A Emile Beauvais

M. Donald Grant

Mde. S.M. Milne

M. Charles E.S. Walls

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1

LA COMMISSION ROYALE D'ENQUETE
SUR LA FISCALITE

ASSEMBLEE DANS LA VILLE DE MONTREAL, QUEBEC

25em. jour Avril 1963

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Montreal, Quebec,
Thursday,
April 25th, 1963.

---On commencing at 9:30 o'clock a.m.

THE CHAIRMAN: Mr. Secretary, the hearing will come to order. Would you present any business to us, and introduce our participants?

LE SECRETAIRE: Monsieur le président, ce matin nous avons un mémoire soumis par la Fédération de Québec des Unions Régionales des Caisses populaires Desjardins. Ce mémoire sera présenté par l'honorable sénateur Vaillancourt.

Mr. Chairman, I will enter this submission in the record as Exhibit No. 26.

---Exhibit No. 26: Mémoire de la Fédération de Québec des Unions Régionales des Caisses populaires Desjardins.

LE PRESIDENT: Merci, monsieur le secrétaire. Honorable sénateur et messieurs, aujourd'hui est notre journée française, et pour cela, il vous sera nécessaire d'utiliser l'équipement. Je regrette cette nécessité d'utiliser le système d'interprétation.

Et maintenant, je demande à M. Beauvais de prendre ma place comme président, car il est le seul à cette table qui puisse parler les deux langues. Voulez-vous continuer, monsieur Beauvais?

M. LE COMMISSAIRE BEAUVAIS: Merci, monsieur Carter. Sénateur Vaillancourt, il me fait plaisir de vous souhaiter la bienvenue, ainsi qu'à vos collègues, et nous vous sommes reconnaissants d'avoir accepté de venir examiner brièvement avec nous le



1
2 à l'avenir nous serions exempts de taxes. Et si
3 depuis ce moment-là on dit que tout le monde agrée
4 à cette manière de procéder, eh bien! ce n'est pas
5 vrai, car il y en a plusieurs qui ont comparu devant
6 vous et qui vous ont dit, n'est-ce pas, que nous
7 devrions être taxés. Alors, dans notre mémoire, nous
8 expliquons ce que nous faisons pour l'éducation de
9 nos gens, et puis comme il est bien difficile d'essayer
10 de convertir tout le monde "at large", chez nous, avec
11 notre organisme coopératif, nous faisons affaires
12 seulement avec nos sociétaires.

13 Quant à ceux qui ne sont pas sociétaires,
14 vous allez prendre toutes les organisations finan-
15 cières, elles vont accepter chez elles n'importe qui,
16 tout le monde va déposer chez elles, tout le monde
17 y va faire des affaires, les bons comme les moins
18 bons, tandis que chez nous, on fait une sélection, et
19 puis l'on fait affaires seulement avec nos sociétaires.

20 Deuxièmement, les parts. D'abord, il
21 faut être sociétaire chez nous, des actionnaires,
22 appelez-les ce que vous voudrez, nous, nous disons
23 "sociétaires". Il faut au moins avoir une part, et
24 ces parts-là ne prennent jamais de plus-value, c'est-
25 à-dire que si vous achetez une part dans une compagnie
26 par exemple, à \$100. aujourd'hui, elle peut valoir
27 \$150. ou \$200. demain, et puis il va y avoir une divi-
28 sion, on va mettre cela à \$10. la part et cela va
29 monter encore. Non, chez nous, chaque part est de
30 \$5. , et au bout de dix, quinze ou vingt ans, sa



1
2 valeur sera encore de \$5. Il n'y a aucune plus-value.

3 C'est justement pour prouver ce que je
4 disais tout à l'heure, que chacun travaille bénévolement, pour le bien-être de chacun, mais sans aucune
5 spéculation. Ce n'est pas du tout la même chose que
6 dans les organisations à capital ordinaire. Voilà
7 pourquoi nous avons réussi à faire l'éducation - nous
8 l'espérons du moins - pas de tout le monde, peut-être,
9 mais disons de deux ou trois p. 100 de nos gens. Mais
10 je vous dis par expérience, parce qu'ayant fait ça
11 pendant au moins 55 ou 56 ans, que quand on a réussi
12 à éduquer deux ou trois p. 100 dans un groupe de tra-
13 vailleurs, c'est un succès merveilleux, parce que
14 l'éducation, ce n'est pas une affaire facile à faire.
15 Mais ces deux ou trois p. 100 entraînent les autres
16 dans la bonne direction.

17
18 De plus, chez nous, dans les Caisses popu-
19 laires, jamais on ne prêtera pour faire de la spécu-
20 lation, mais simplement pour aider les gens de la
21 classe laborieuse. Les millionnaires n'entrent pas
22 chez nous; ils sont capables d'organiser leurs propres
23 affaires. Ce que nous avons, c'est la classe labo-
24 rieuse qui s'en vient chez nous et qui nous demande
25 de la protéger. Non seulement faut-il protéger l'avoir
26 des gens-là, mais il faut également les protéger au
27 point de vue prêts, parce qu'il y a certaines organi-
28 sations, non seulement au Canada mais ailleurs aussi,
29 ou l'on abuse, quoi, des petites gens, en leur prêtant
30 à 24 p. 100, et quand on prête à 24 p.100 sur un



1
2 montant initial, remboursable dans 12 mois, cela
3 revient à du 47 p.100 par année. Alors, je suis
4 d'avis que c'est une affaire extraordinaire.

5 Quand M. Desjardins a fondé les Caisses
6 populaires, c'était pour combattre l'usure. S'il
7 revenait aujourd'hui, il dirait qu'il y a encore des
8 gens qui font de l'usure à 47 p.100. A mon sens,
9 c'est de l'usure; je ne sais pas ce que vous en pen-
10 sez ou comment vous appelez cela, mais disons que
11 c'est une affaire d'opinion, si vous voulez. Ceci
12 est pour vous prouver notre thèse, notre système
13 d'éducation, et si vous nous dites "vous êtes des
14 théoriciens", nous allons vous répondre "non, nous
15 sommes des praticiens, nous voyons ce qui se passe".

16 Supposons qu'un bonhomme s'en vienne chez
17 nous emprunter mille dollars, remboursable dans un,
18 deux, trois ou quatre ans, et qu'il lui faille donner
19 dix dollars ou vingt dollars par mois pour rembourser
20 sa dette. On lui demande d'abord pourquoi il emprunte.
21 Si c'est pour des choses absolument futiles qui,
22 au point de vue de la nation, ne valent absolument
23 rien, on ne lui prête pas. Et à titre d'exemple -
24 exagéré, si vous le voulez - supposons qu'il veuille
25 emprunter de l'argent pour acheter des machées de
26 gomme, simplement, on ne lui prêtera pas, parce que
27 cela n'a pas de sens. Or, nous ne prêtons que pour
28 quelque chose de constructif. De plus, nous prétendons
29 qu'en faisant des prêts pour des choses économiques,
30 constructives, au point de vue de la nation, pour



maintenir l'économie de la nation, une fois que ce bonhomme-là a remboursé son prêt, il s'est habitué à rembourser, et une fois qu'il a terminé ses remboursements de \$20. par mois, on en a fait un épargnant. Il va continuer à remettre encore \$20. par mois de côté, mais là, à l'avenir, ce ne sera plus pour payer ses dettes, mais pour faire un capital.

Et n'oubliez pas que l'épargne que nous prêchons chez nous, c'est pas une affaire pour mettre dans le tiroir, ça ne sert à rien, le capital dans un tiroir. Au contraire, c'est une dépense différée, afin que l'homme qui arrive à 65 ans ne soit pas réduit à vivre simplement avec les \$65. que lui procure l'Etat, mais qu'il continue à vivre comme il pouvait vivre avant l'âge de 65 ans, avec un salaire, parce qu'il a mis de l'argent de côté, et en continuant de vivre sur le même rythme que précédemment, eh bien! il maintient l'activité économique de toute la nation. Vous me direz que ce n'est là qu'un exemple, mais il ne faut pas oublier que nous comptons presque un million et demi de membres ou sociétaires.

Enfin - et je termine par là - le travail que nous faisons, au point de vue éducation, depuis dix ans surtout, nous le faisons intensément auprès des jeunes, des enfants d'écoles, des jeunes qui vont à l'école primaire, supérieure ou secondaire, peu importe, parce que nous réalisons que l'éducation, cela se fait surtout chez les jeunes. Les gens de mon âge, il n'y a plus de besoin de les éduquer; si



1
2 on a pris un mauvais pli, on reste avec le pli, mais
3 avec les jeunes, c'est différent. Hier matin, j'avais
4 le plaisir de rencontrer de 700 à 800 écoliers à
5 l'école régionale de Lévis pour leur démontrer l'utili-
6 lité de l'épargne. J'ai essayé de leur faire compren-
7 dre que ce n'est pas simplement quand on est jeune et
8 qu'on met 10c., 15c. ou 25. de côté qu'on va réussir
9 à augmenter l'économie de la nation, mais bien quand
10 un petit gars a su se priver d'un 10c. ou d'un 25c.
11 au lieu de le dépenser follement. En le mettant de
12 côté, il a fait une éducation pour lui-même, il a
13 appris à se maîtriser, à se raisonner lui-même, et
14 demain au lieu d'être un petit fou dans la vie, ne
15 sachant que faire parce qu'il a tout dépensé ou qu'il
16 n'a jamais su quoi faire avec l'argent qu'il avait,
17 il a fait un honnête citoyen.

18 Et de toute façon, cela ne rapporte rien
19 à nos Caisse populaires, au point de vue revenu, Au
20 contraire, on dépense de l'argent et ce n'est pas le
21 fait d'avoir dix ou quinze dollars d'une école par
22 semaine qui aide, car chaque semaine il faut que
23 quelqu'un aille là un quart d'heure par jour, pour
24 essayer de faire faire un peu d'épargne à nos gens.
25 J'admets que M. Girardin qui a commencé ce grand
26 mouvement des Caisses populaires d'enfants à Montréal
27 a réussi à ramasser quelques millions de dollars,
28 mais c'est une éducation extraordinaire et difficile.
29 Les banques ou autres institutions financières ne
30 pourraient faire la même chose, parce qu'elles sont



1
2 beaucoup trop hâtives pour ces gens-là. Elles ne
3 comptent que sur des revenus, autrement ça ne marche
4 pas. Tandis que nous, nous avons une idéologie tout
5 à fait différente.

6 On nous traitera peut-être de rêveurs, mais
7 dans la vie, pour réussir, il faut être capable de
8 rêver, mais rêver les yeux ouverts afin de voir ce
9 que demain va nous apporter.

10 Messieurs, je vous ai énoncé, brièvement,
11 ce qu'étaient nos principes. Maintenant, si vous avez
12 des questions à nous poser, nous essaierons d'y
13 répondre.

14 M. LE COMMISSAIRE BEAUVAIS: Merci beau-
15 coup, sénateur Vaillancourt. Et maintenant, selon votre
16 mémoire, les Caisses populaires ont obtenu certains
17 résultats que je voudrais mentionner ici. Elles ont
18 établi un système de crédit qui leur permet de satis-
19 faire leurs besoins économiques essentiels et de
20 mettre leurs sociétaires à l'abri des taux usuriers,
21 et peut-être aussi ont-ils d'autres garanties que leur
22 honnêteté et leur bonne volonté à rembourser, puisque
23 les banques vont, en général, aider l'ouvrier ou le
24 cultivateur honnête, travailleur, sobre et économe
25 à se procurer les choses dont il a besoin pour alimen-
26 ter son activité, ou enfin se développer et de déve-
27 lopper également le sens de la privation, de l'épargne.

28 Et maintenant, avant de commencer la
29 période de questions, je vous demanderais de nous
30 donner, en quelques mots, des détails sur votre



1
2 organisation. Je comprends que la base est constituée
3 des Caisses individuelles dans les paroisses, et que
4 celles-ci prêtent seulement à leurs sociétaires, dans
5 leur paroisse. Maintenant, au-dessus de cela, vous
6 avez une Caisse régionale, je crois. Celle-là, quelle
7 est sa fonction? Egalement, quelle est la fonction de
8 la Fédération? Est-ce qu'elles font des prêts aux
9 particuliers, ou est-ce seulement pour financer la
10 Fédération ou pour financer les Caisses régionales?

11 HON. SENATEUR VAILLANCOURT: La base, la
12 pierre angulaire, c'est la Caisse locale; le deuxième
13 échelon, la Caisse régionale.

14 M. LE COMMISSAIRE BEAUVAIS: Quelles sont
15 les fonctions de la Caisse régionale?

16 HON. SENATEUR VAILLANCOURT: Nous utilisons
17 des ordres de paiement ou des chèques, d'autres appel-
18 lent cela des ordres de paiement; il y a échange de
19 tous ces chèques-là, c'est une Chambre de compensation,
20 si vous voulez, mais pour ouvrir une Chambre de com-
21 pensation, il faut des fonds. Alors, l'argent liquide
22 des Caisses populaires est déposé à leur Caisse régio-
23 nale. Et puis en outre de cela, aujourd'hui, avec le
24 système de crédit que nous avons à travers le pays,
25 prenons par exemple la province de Québec, où l'on
26 compte près de 500 endroits où il n'y a aucune banque
27 ou autre institution financière, seulement qu'une
28 Caisse populaire....

29 M. LE COMMISSAIRE BEAUVAIS: 500?

30 HON. SENATEUR VAILLANCOURT: Environ cela,



1
2 476, pour être exact.

3 Or, ces gens-là utilisent de la gasoline,
4 ils ont des camions et tout ce que vous voudrez. Ils
5 ont des cartes de crédit; ils payent. S'ils n'avaient
6 pas la Caisse populaire, je ne sais pas comment ils
7 paieraient. Ils envoient cela à leur Caisse régionale
8 ou plutôt à leur compagnie, et la compagnie nous
9 envoie cela, à la Caisse régionale.

10 En outre, ces Caisses-là reçoivent des
11 chèques des banques, de pension de vieillesse, alloca-
12 tions familiales, enfin tout ce que vous voudrez. Ils
13 s'en vont à la Caisse locale; la Caisse locale les
14 prend et les envoie à la banque, pour les chèques du
15 gouvernement, que ce soit du gouvernement fédéral ou
16 du gouvernement provincial. Et au-dessus de cela,
17 nous avons dix unions dans la province de Québec. Au-
18 dessus de cela, il y a la Fédération, mais la Fédéra-
19 tion ne reçoit pas d'argent. Elle reçoit une contribu-
20 tion de chaque Caisse locale pour lui permettre de
21 faire l'inspection de toutes les Caisses, la propagande
22 l'éducation, le travail d'éducation, qui est, chez
23 nous, assez important. Mais la Fédération ne consent
24 pas de prêts.

25 M. LE COMMISSAIRE BEAUVAIS: Elle ne prête
26 pas?

27 HON. SENATEUR VAILLANCOURT: Elle ne prête
28 pas, car elle n'a pas d'argent. L'argent qu'elle
29 reçoit, ce sont les contributions des Caisses.
30



M. LE COMMISSAIRE BEAUVAIS: Elle fait l'inspection?

HON. SENATEUR VAILLANCOURT: Elle fait l'inspection, oui.

M. LE COMMISSAIRE BEAUVAIS: Et maintenant, le Caisse régionale ne prête pas aux individus?

HON. SENATEUR VAILLANCOURT: Non.

M. LE COMMISSAIRE BEAUVAIS: Les prêts partent seulement de....

HON. SENATEUR VAILLANCOURT: Des Caisses populaires seulement. La Caisse régionale, oui, elle va faire des prêts.

M. LE COMMISSAIRE BEAUVAIS: Mais vous avez dit qu'elle ne prêtait pas.

HON. SENATEUR VAILLANCOURT: Plutôt des achats d'obligations du gouvernement; seulement, elle va prêter aux Caisses locales, à un moment donné.

M. LE COMMISSAIRE BEAUVAIS: Elle va financer les Caisses locales?

HON. SENATEUR VAILLANCOURT: Temporairement, par suite de manque de liquidité.

M. LE COMMISSAIRE BEAUVAIS: Parce que là, vous nous dites que la Caisse régionale va faire des placements des fonds qu'elle a en trop?

HON. SENATEUR VAILLANCOURT: Oui.

M. LE COMMISSAIRE BEAUVAIS: Est-ce que ce sont des placements à court terme?

HON. SENATEUR VAILLANCOURT: Oui.



1

2

M. LE COMMISSAIRE BEAUVAIS: De façon à
avoir l'argent dès qu'elles veulent l'avoir?

4

HON. SENATEUR VAILLANCOURT: Pas plus que
5 ans pour les Caisses régionales.

6

7

8

9

M. LE COMMISSAIRE BEAUVAIS: Et ce revenu
des placements des Caisses régionales? Comme d'autres,
vous devez avoir des placements à la Fédération? Vous
n'avez pas de placements à la Fédération?

10

M. MORIN: C'est une proportion mineure.

11

12

13

M. LE COMMISSAIRE BEAUVAIS: C'est surtout
dans les Caisses régionales que se font les place-
ments?

14

HON. SENATEUR VAILLANCOURT: Oui.

15

16

M. LE COMMISSAIRE BEAUVAIS: Et le revenu
sert à quoi?

17

18

19

HON. SENATEUR VAILLANCOURT: A payer des
intérêts, aux Caisses locales, on va payer un intérêt
sur l'argent qu'elles viennent déposer chez nous.

20

21

22

M. LE COMMISSAIRE BEAUVAIS: Je vois à la
page 20 de votre mémoire qu'une somme assez considéra-
ble, soit \$479,000, a été versée aux Unions régionales?

23

M. TREMBLAY: Oui.

24

25

26

M. LE COMMISSAIRE BEAUVAIS: A quoi ont
servi ces fonds? Je crois que c'est pour une seule
année?

27

28

HON. SENATEUR VAILLANCOURT: Oui, dans une
seule année.

29

30

M. LE COMMISSAIRE BEAUVAIS: Cela sert à
quoi?



1
2 M. CHARRON: Ce sont des contributions des
3 Caisses.

4 M. MORIN: Des organisations supérieures.

5 HON. SENATEUR VAILLANCOURT: Des Unions
6 régionales et de la Fédération.

7 M. LE COMMISSAIRE BEAUVAIS: Est-ce que cela
8 coûte autant que cela?

9 HON. SENATEUR VAILLANCOURT: Cela coûte un
10 million, plus d'un million par année, pour l'inspec-
11 tion et la propagande.

12 M. TREMBLAY: Seulement l'inspection, on
13 a 75 professionnels à plein temps, pour faire la
14 visite des Caisses, il y a 1250 Caisses dans un terri-
15 toire immense. Nous allons jusqu'à Blanc-Sablon, et
16 au nord, jusqu'à la Baie d'Hudson et au Témiscamingue.
17 Nous allons aussi en Gaspésie, au coeur de la Gaspésie.
18 Alors, seulement le salaire des 75 professionnels - et
19 vous êtes dans la profession - vous savez ce que cela
20 peut représenter. Ensuite, il y a les dépenses de
21 voyage, etc. Ensuite, cela prend un personnel interne
22 pour compléter le travail des professionnels, et dans
23 les visées de la Fédération, il y a l'éducation, la
24 propagande, les publications, les revues de tous les
25 placements. Aucune Caisse, ni Caisse centrale ni
26 Caisse locale ne peut acheter un seul placement sans
27 l'approbation préalable de la Fédération.

28 M. LE COMMISSAIRE BEAUVAIS: Evidemment,
29 cette somme de \$479,000 mentionnée à la page 20 ne
30 va pas à la Fédération?



1

M. TREMBLAY: Non.

2

3

M. LE COMMISSAIRE BEAUVAIS: Les Unions
régionales, est-ce là que le travail d'inspection
et d'éducation se fait?

4

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HON. SENATEUR VAILLANCOURT: Non. Vous
savez, il y a 80 inspecteurs qui dépendent directement
de la Fédération. Maintenant, quand l'inspecteur de
la Fédération passe et se rend compte que dans telle
Caisse populaire la comptabilité n'est pas ce qu'elle
devrait être, qu'il y a des choses qui ne balancent
pas exactement, il en averti l'Union, qui a un autre
groupe d'inspecteurs sur place. Alors, l'inspecteur
de l'Union va partir pour 15 jours, trois semaines ou
un mois et visiter la Caisse en question. C'est pour
cela qu'il y a double inspection, mais il y en a un
qui fait l'inspection, et l'autre fait l'éducation du
gérant, le redressement, quand il y a lieu.

19

20

21

22

M. LE COMMISSAIRE BEAUVAIS: Je vois égale-
ment à la page 20 que le fonds de sécurité s'élève
à \$122,000. Est-ce gardé dans les Caisses?

23

24

25

HON. SENATEUR VAILLANCOURT: C'est gardé
à la Fédération, mais il arrive malheureusement qu'il
y a des mauvais prêts, il y a des pertes, et puis
il faut protéger nos gens.

26

27

M. LE COMMISSAIRE BEAUVAIS: Ce que vous
appelez des réserves?

28

29

30

HON. SENATEUR VAILLANCOURT: C'est ça,
c'est la contribution que l'on reçoit des Caisses
populaires, il y a 10 p. 100 qui va dans le Fonds



1
2 de sécurité, au cas où une Caisse soit en déficit,
3 peut-être des mauvais prêts, il y en a, malheureuse-
4 ment et on va faire un prêt à la Caisse à un taux
5 minime d'intérêt, soit un pour cent, et de cette
6 façon-là, on protège nos sociétaires.

7 M. LE COMMISSAIRE BEAUVAIS: Votre expérien-
8 ce des dernières années démontre-t-elle que ce montant
9 de réserve s'accumule considérablement, ou si cette
10 réserve-là se maintient?

11 HON. SENATEUR VAILLANCOURT: Le montant
12 de réserve, le montant de chaque année?

13 M. LE COMMISSAIRE BEAUVAIS: Oui?

14 HON. SENATEUR VAILLANCOURT: Dix pour cent,
15 mais il est attribué à droite et à gauche, il n'est
16 pas tout utilisé, parce que cela serait un peu désas-
17 treux.

18 M. LE COMMISSAIRE BEAUVAIS: Actuellement,
19 quel est le montant qui reste en réserve?

20 HON. SENATEUR VAILLANCOURT: On peut dire,
21 n'est-ce pas, qu'il y a encore, depuis 20 ans, 25 ans,
22 depuis que cela existe, cette affaire-là, à peu près
23 cinq cent mille, six cent mille dollars.

24 M. LE COMMISSAIRE BEAUVAIS: Et le restant?

25 HON. SENATEUR VAILLANCOURT: Le restant,
26 on l'a mis sur obligations du gouvernement, ou ailleurs.

27 M. LE COMMISSAIRE BEAUVAIS: Cela représente
28 un montant de combien?

29 HON. SENATEUR VAILLANCOURT: A peu près
30 autant.



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M. LE COMMISSAIRE BEAUVAIS: Cinq cent

3

mille?

4

HON. SENATEUR VAILLANCOURT: A peu près,

5

oui.

6

M. LE COMMISSAIRE BEAUVAIS: Et maintenant

7

la somme de \$796,000 qui est mentionnée à la page 20,

8

cela est versé à la Fédération?

9

M. TREMBLAY: Oui.

10

M. LE COMMISSAIRE BEAUVAIS: Cela sert à

11

quoi, exactement?

12

HON. SENATEUR VAILLANCOURT: C'est ça, à

13

l'inspection, la propagande, maintenir le bureau

14

pour étudier les valeurs que les Caisses populaires

15

peuvent acheter.

16

M. LE COMMISSAIRE BEAUVAIS: Du montant,

17

évidemment, de \$479,000?

18

HON. SENATEUR VAILLANCOURT: Non, les

19

\$479,000, c'est surtout ça pour les Unions régionales,

20

ça reste aux Unions régionales, ça, voyez-vous.

21

Prenons, par exemple, \$1 de contribution que les Cais-

22

ses payent; 1/10 de 1 p. 100 sur l'actif de la fin

23

d'année. Supposons qu'une Caisse paye \$100.; eh bien,

24

il y a 10 p. 100 qui va au Fonds de sécurité. Alors,

25

le 90 p. 100 est divisé 50/50 à la Fédération et aux

26

Unions.

27

M. LE COMMISSAIRE BEAUVAIS: Maintenant,

28

je vois, d'après votre mémoire, que vous dites que

29

les Caisses populaires rendent certains services que

30

les banques ne rendent pas, et vous avez résumé cela



1
2 tantôt en disant qu'il y avait environ 476 où il y
3 avait des Caisses, qui ne sont pas desservis, même
4 par des agences....

5 HON. SENATEUR VAILLANCOURT: Rien du tout.

6 M. LE COMMISSAIRE BEAUVAIS: ou des banques?

7 HON. SENATEUR VAILLANCOURT: Rien du tout.

8 M. LE COMMISSAIRE BEAUVAIS: Maintenant, le
9 revenu que l'actionnaire reçoit est limité, vous dites?

10 HON. SENATEUR VAILLANCOURT: Oui.

11 M. LE COMMISSAIRE BEAUVAIS: Pas l'action-
12 naire, mais le sociétaire, sur sa part de \$5?

13 HON. SENATEUR VAILLANCOURT: Oui.

14 M. LE COMMISSAIRE BEAUVAIS: Quel est le
15 dividende approximatif qui a été payé depuis les
16 derniers cinq ans?

17 HON. SENATEUR VAILLANCOURT: C'est tout
18 basé, chaque Caisse populaire figure ça elle-même.

19 M. LE COMMISSAIRE BEAUVAIS: Est-ce que
20 c'est plus que 5 ou 10 p. 100?

21 HON. SENATEUR VAILLANCOURT: Non.

22 M. LE COMMISSAIRE BEAUVAIS: Approximative-
23 ment, qu'est-ce que c'est?

24 HON. SENATEUR VAILLANCOURT: Sur l'épargne
25 régulière, généralement, c'est 3 p. 100, comme les
26 banques; sur les parts, 5 p. 100, on peut dire..

27 M. LE COMMISSAIRE BEAUVAIS: 5 p. 100?

28 HON. SENATEUR VAILLANCOURT: Oui. Mainte-
29 nant, il y a des Caisses populaires qui existent
30 depuis 60 ans, qui vont payer 6 p. 100, mais ce sont



des exceptions.

M. LE COMMISSAIRE BEAUVAIS: Evidemment, le revenu que reçoit le sociétaire est taxable?

HON. SENATEUR VAILLANCOURT: C'est ça.

M. LE COMMISSAIRE BEAUVAIS: Et maintenant parlons de l'excédent, net operation, parce que enfin c'est là le point le plus important qui nous préoccupe que ce soit au niveau des Caisses locales, régionales ou au niveau de la Fédération. Nous voudrions savoir à quoi cela sert. Je comprends qu'il y a ce qu'on appelle le trop-perçu. Est-ce que cela va uniquement à ceux qui ont emprunté?

HON. SENATEUR VAILLANCOURT: Ah! non; premièrement, ça va là, parce que comme principe, si on bonifie une partie, il faut bonifier l'autre partie.

M. LE COMMISSAIRE BEAUVAIS: Quelle est l'autre?

HON. SENATEUR VAILLANCOURT: Le déposant, celui qui dépose l'argent.

M. LE COMMISSAIRE BEAUVAIS: Oui?

HON. SENATEUR VAILLANCOURT: Et puis celui qui a emprunté. Ce sont les deux. Alors, si vous donnez une ristourne...supposons qu'on prête à 6 p. 100, disons. A un moment donné, on a des bénéfices assez considérables, pour avoir un fonds de réserve, parce que la loi dit "vous êtes obligés d'avoir tant à l'avoir propre". Alors, on dit "s'il paye 6 p. 100, au lieu de payer 3 p. 100 aux épargnants, on va payer 4 p. 100.....



1
2 M. LE COMMISSAIRE BEAUVAIS: Vous faites
3 cela?

4 HON. SENATEUR VAILLANCOURT: Non, si on
5 faisait cela, ce ne serait pas juste. Il y a des
6 règlements qui disent "la première chose, il faut que
7 vous fassiez bénéficier l'emprunteur, parce que défi-
8 nitivement c'est l'emprunteur qui fait faire de l'ar-
9 gent". Alors, si vous prêtez à 6 p. 100, si vous vou-
10 lez monter votre taux d'intérêt, votre ristourne,
11 votre trop-perçu de 3 à 4 p. 100, avant de faire ça,
12 vous allez verser $\frac{1}{2}$ de 1. p. 100 à l'emprunteur,
13 diminuant son intérêt à $5\frac{1}{2}$ p. 100, et vous allez
14 payer seulement $2\frac{1}{2}$ p. 100 au lieu de 3 p. 100.

15 M. LE COMMISSAIRE BEAUVAIS: Autrement dit,
16 vous l'employer premièrement, le surplus, à constituer
17 une réserve?

18 HON. SENATEUR VAILLANCOURT: C'est ça.

19 M. LE COMMISSAIRE BEAUVAIS: Deuxièmement,
20 vous regardez ceux qui ont emprunté dans le cours de
21 l'année, et vous leur retournez une partie de l'inté-
22 rêt qu'ils ont payé?

23 HON. SENATEUR VAILLANCOURT: C'est ça.

24 M. LE COMMISSAIRE BEAUVAIS: Et troisiè-
25 ment, vous augmentez l'intérêt payé ou crédité aux
26 déposants?

27 HON. SENATEUR VAILLANCOURT: Oui.

28 M. LE COMMISSAIRE BEAUVAIS: Maintenant,
29 quand vous déterminez l'intérêt annuel sur les emprunts,
30 est-ce que c'est versé en argent aux emprunteurs, ou



1

2

si a'est crédité sur leur dette?

3

HON. SENATEUR VAILLANCOURT: C'est crédité
sur leur dette.

5

M. LE COMMISSAIRE BEAUVAIS: Quand est-ce
crédité? A la fin de l'année?

7

HON. SENATEUR VAILLANCOURT: A la fin de
l'année, il faut que ça passe par l'assemblée générale.

9

M. LE COMMISSAIRE BEAUVAIS: Cela porte à
l'année précédente?

10

11

HON. SENATEUR VAILLANCOURT: Oui.

12

M. LE COMMISSAIRE BEAUVAIS: Alors, leur
compte est crédité, leur dette est réduite du montant
de leur ristourne?

15

HON. SENATEUR VAILLANCOURT: C'est ça, \$5,
\$10. ou \$15.

17

M. LE COMMISSAIRE BEAUVAIS: Est-ce que vous
diriez que ce sont les seuls trois usage que vous fai-
tes de votre profit, ou de la différence entre votre
revenu et vos dépenses, parce que dans votre mémoire,
vous dites que vous essayez de donner un système à
prix coûtant?

22

23

HON. SENATEUR VAILLANCOURT: Oui.

24

M. LE COMMISSAIRE BEAUVAIS: Alors, vous
éliminez le profit par ces trois moyens-là?

25

26

HON. SENATEUR VAILLANCOURT: Oui.

27

M. LE COMMISSAIRE BEAUVAIS: Y a-t-il d'au-
tres moyens?

28

29

HON. SENATEUR VAILLANCOURT: Il y a d'autres
affaires à part ça. Il faut faire notre réserve,

30



1
2 c'est statué, la loi le dit. Deuxièmement, il peut
3 arriver qu'on soit obligé d'agrandir nos locaux,
4 bâtir, etc.

5 M. LE COMMISSAIRE BEAUVAIS: Faire des
6 dépenses "capital"?

7 HON. SENATEUR VAILLANCOURT: Oui.

8 M. LE COMMISSAIRE BEAUVAIS: Cela peut être
9 fait avec l'argent du fonds de réserve aussi?

10 HON. SENATEUR VAILLANCOURT: C'est ça.

11 M. LE COMMISSAIRE BEAUVAIS: Ce n'est pas
12 de l'encaisse?

13 HON. SENATEUR VAILLANCOURT: Eui.

14 M. LE COMMISSAIRE BEAUVAIS: Ce n'est pas
15 en proportion de leur capital payé?

16 HON. SENATEUR VAILLANCOURT: Jamais.

17 M. CHARRON: Et d'ailleurs, monsieur le
18 président, pour confirmer ce que le sénateur vient de
19 dire, l'article 46 de la constitution des Caisses
20 populaires dit bien clairement que toute augmentation
21 du boni annuel, qui est l'intérêt sur les parts des
22 sociétaires, est accompagné d'une bonification cor-
23 respondante dans les conditions des prêts aux socié-
24 taires, soit sous forme d'un abaissement du taux
25 d'intérêt prélevé, qui peut être une ristourne qui
26 est créditée, soit autrement en réduisant le taux
27 d'intérêt.

28 M. LE COMMISSAIRE BEAUVAIS: Est-ce que je
29 comprends aussi que cela passe en premier, l'intérêt
30 payé aux sociétaires comme dividendes, j'appellerais



1 cela un dividende, est-ce que cela passe en premier?

2 M. CHARRON: Il faut distinguer entre l'inté-
3 rêt sur l'épargne et l'intérêt sur le capital social.
4 L'intérêt, c'est 5 p. 100.

5 HON. SENATEUR VAILLANCOURT: L'intérêt sur
6 le capital social est 5 p. 100. La première chose,
7 c'est l'intérêt sur l'épargne qui compte. Il arrive
8 au début qu'on va payer $\frac{1}{2}$ de l. p. 100 sur le capital,
9 ou rien du tout aussi.

10 M. LE COMMISSAIRE BEAUVAIS: Une autre ques-
11 tion. L'actionnaire ou sociétaire, comme tel, a-t-il
12 un droit quelconque dans l'excédent de l'actif net
13 sur le capital?

14 HON. SENATEUR VAILLANCOURT: Non, monsieur.
15 Voici; le fonds de réserve ne peut jamais être distri-
16 bué entre les mains des sociétaires.

17 M. LE COMMISSAIRE BEAUVAIS: Il n'y a aucun
18 droit?

19 HON. SENATEUR VAILLANCOURT: Non.

20 M. LE COMMISSAIRE BEAUVAIS: Evidemment, il
21 a le droit de se faire rembourser son \$5?

22 HON. SENATEUR VAILLANCOURT: Oui.

23 M. LE COMMISSAIRE BEAUVAIS: Parce que au
24 cas de dissolution, j'en viens à une autre question...

25 HON. SENATEUR VAILLANCOURT: Sur ça, la
26 réserve qui est accumulée là, au cas de dissolution,
27 sera distribuée suivant l'arrêté en conseil adopté
28 par le gouvernement, la réserve sera distribuée aux
29 oeuvres de charité.

30



M. LE COMMISSAIRE BEAUVAIS: Il y a un droit d'entrée?

HON. SENATEUR VAILLANCOURT: Oui.

M. LE COMMISSAIRE BEAUVAIS: Est-ce que quelqu'un qui ouvre un compte chez vous est obligé de souscrire à une part sociale?

HON. SENATEUR VAILLANCOURT: Oui.

M. LE COMMISSAIRE BEAUVAIS: Je comprends que ce droit d'entrée est retourné au sociétaire?

HON. SENATEUR VAILLANCOURT: Non.

M. LE COMMISSAIRE BEAUVAIS: A quoi sert-il?

M. CHARRON: Il va directement au fonds de réserve.

M. LE COMMISSAIRE BEAUVAIS: La même réserve qui s'accumule d'année en année?

HON. SENATEUR VAILLANCOURT: Oui.

M. TREMBLAY: Monsieur le président, je voudrais vous référer au supplément statistique qui a été déposé à la Commission Porter. Au fait, je crois que nous pouvons le mettre à votre disposition, et cela vous donnera la distribution exacte des revenus des Caisses populaires. Je peux vous donner, rapidement, en pourcentage et en volume, les chiffres exacts sont à la page 186, le 31 décembre 1960, dans le cours d'une année, les excédents qui étaient de \$26,687,000 soit 60 p. 100. Vous voyez que les intérêts sur les prêts représentent 63.4 p. 100 comme source de revenus; les placements 26 p. 100, les frais d'administration 2.4 p. 100 et autres revenus, 8.2 p. 100.



1
2 Maintenant, dans la colonne suivante, vous
3 avez \$3,181,000 de revenu total pour les Caisses
4 centrales, et vous voyez également qu'il y a \$404,000
5 provenant d'intérêt et les dépenses, vous avez en
6 bas la répartition qui est faite, vous l'avez depuis
7 1935, je crois, sur une base correspondante.

8 HON. SENATEUR VAILLANCOURT: On peut vous
9 les donner en anglais aussi.

10 M. LE COMMISSAIRE BEAUVAIS: Maintenant, je
11 comprends que seuls les gérants et les employés peu-
12 vent recevoir une rémunération. Il n'y a pas de jetons
13 de présence, comme vous le mentionnez dans votre mé-
14 moire, pas de commission aux dirigeants de la Caisse
15 populaire?

16 HON. SENATEUR VAILLANCOURT: Non.

17 M. LE COMMISSAIRE BEAUVAIS: Maintenant,
18 n'est-il pas vrai que l'article 6 de la loi de la
19 province de Québec qui régit les Caisses populaires
20 Desjardins stipule que ces Caisses ne peuvent s'adon-
21 ner à un genre d'exploitation rapportant des profits?

22 HON. SENATEUR VAILLANCOURT: Oui.

23 M. LE COMMISSAIRE BEAUVAIS: Est-ce cette
24 pratique qui a été suivie, même dernièrement?

25 HON. SENATEUR VAILLANCOURT: C'est dans la
26 nouvelle loi aussi.

27 M. LE COMMISSAIRE BEAUVAIS: Je vous demande
28 cela, parce que évidemment, nous avons vu l'essor
29 extraordinaire que les Caisses ont connu et nous nous
30 sommes demandés si enfin elles ne s'étaient pas diri-



gées, un peu, du côté commercial?

HON. SENATEUR VAILLANCOURT: D'ailleurs, les prêts qui pourraient entraîner la spéculation, les prêts aux marchands, ces choses-là, on n'entre pas là-dedans.

M. LE COMMISSAIRE BEAUVAIS: Maintenant, au cas de dissolution, vous dites que le solde de l'actif réalisé, y compris la réserve, est distribué ou affecté à la division territoriale de la Caisse populaire, à une ou des oeuvres d'utilité générale désignée par le lieutenant-gouverneur en conseil. Qu'est-ce que vous entendez par utilité générale? Est-ce de la charité aux enfants?

HON. SENATEUR VAILLANCOURT: Cela peut être une oeuvre de charité pour les enfants, un centre de loisirs, par exemple, ces choses-là. D'ailleurs, c'est le lieutenant-gouverneur en conseil qui décidera.

M. LE COMMISSAIRE BEAUVAIS: Mais il est obligé de suivre tout de même les mots "utilité générale"?

HON. SENATEUR VAILLANCOURT: Oui, c'est ça.

M. LE COMMISSAIRE BEAUVAIS: Est-ce que je comprends que là-dedans c'est exclusivement des oeuvres de charité ou de philanthropie?

HON. SENATEUR VAILLANCOURT: Philanthropie.

M. LE COMMISSAIRE BEAUVAIS: Comme un centre de loisirs pour les jeunes?

HON. SENATEUR VAILLANCOURT: Oui, c'est ça, une affaire comme ça, un centre, une salle paroissiale.



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M. LE COMMISSAIRE BEAUVAIS: Les Sociétaires ne recevront rien du tout, sauf leur \$5?

HON. SENATEUR VAILLANCOURT: Oui, mais comme cela va être distribué dans la communauté de la Caisse en question, tout le monde va en bénéficier.

M. LE COMMISSAIRE BEAUVAIS: Maintenant, je vois que le gouvernement de la province de Québec vous verse une subvention de \$80,000 par année?

HON. SENATEUR VAILLANCOURT: C'est ça.

M. LE COMMISSAIRE BEAUVAIS: A quoi sert cette subvention?

HON. SENATEUR VAILLANCOURT: Pour l'inspection, pour aider l'inspection.

M. LE COMMISSAIRE BEAUVAIS: C'est en plus de vos réserve et des revenus que vous recevez des Caisses locales?

HON. SENATEUR VAILLANCOURT: C'est ça, oui.

M. LE COMMISSAIRE BEAUVAIS: C'est exact?

HON. SENATEUR VAILLANCOURT: Oui. Dans les autres provinces, n'est-ce pas, c'est le gouvernement qui fait l'inspection, tandis que chez nous, c'est nous qui la faisons, et nous en faisons rapport au gouvernement. Cela coûte moins cher au gouvernement comme ça.

M. LE COMMISSAIRE BEAUVAIS: Et maintenant, le principal emploi, je dirais, de votre surplus, parce que évidemment quand vous avez payé vos dépenses que vous avez faites, la ristourne à vos emprunteurs, et après avoir augmenté l'intérêt qui se trouve être



1
2 impossible, évidemment, dans les mains de ceux qui le
3 reçoivent....

4 HON. SENATEUR VAILLANCOURT: C'est ça.

5 M. LE COMMISSAIRE BEAUVAIS:..après avoir
6 payé un intérêt convenable à vos sociétaires sur
7 leur capital, là, il vous reste des réserves qui pro-
8 duisent un revenu, parce qu'elles sont placées et leur
9 revenu est ré-investi dans les réserves?

10 HON. SENATEUR VAILLANCOURT: Non, les reve-
11 nus de vos réserves...d'abord, le \$80,000 que le gou-
12 vernement nous donne, ce n'est même pas 10 p. 100 de
13 ce que cela nous coûte, c'est moins que cela.

14 M. LE COMMISSAIRE BEAUVAIS: Vous avez tout
15 de même les contributions des Caisses locales qui vous
16 aident?

17 HON. SENATEUR VAILLANCOURT: Oui, c'est ça
18 qu'on vous dit, que cela nous coûte presque un million
19 par année, ce sont les contributions des Caisses loca-
20 les qui nous aident; quand on arrive à la fin de l'an-
21 née, on fait notre budget, ça boucle, on peut pas
22 mettre d'argent de côté.

23 M. LE COMMISSAIRE BEAUVAIS: Qu'est-ce qui
24 arriverait si le gouvernement taxait vos profits?

25 HON. SENATEUR VAILLANCOURT: Si le gouverne-
26 ment taxait nos profits?

27 M. LE COMMISSAIRE BEAUVAIS: Oui, quel effet
28 est-ce que cela aurait sur l'ensemble?

29 HON. SENATEUR VAILLANCOURT: L'effet que
30 cela aurait, c'est que tout le monde voudrait être



1
2 payé. Après cela, on détruirait l'initiative privée
3 et la charité, quoi, l'entr'aide mutuelle qu'on
4 donne actuellement, tout cela disparaîtrait. Nos
5 gens diraient "payez nous". Vous pouvez vous imaginer
6 tout ce qui pourrait arriver. Et ce qui serait le
7 plus terrible, c'est qu'on détruirait une affaire qui
8 est organisée depuis de nombreuses années. A part ça,
9 on pourrait augmenter les taux d'intérêt.

10 M. LE COMMISSAIRE BEAUVAIS: Votre taux
11 d'intérêt, actuellement, évidemment, sui le marché,
12 parce que vous avez une moyenne de prêt de 7 p. 100,
13 je comprends?

14 HON. SENATEUR VAILLANCOURT: Ah! non, la
15 moyenne, ça varie entre 5 et 6 p. 100. 7 p. 100,
16 c'est quand vous incluez l'assurance, ça.

17 M. LE COMMISSAIRE BEAUVAIS: Est-ce que
18 l'assurance est comprise là-dedans?

19 HON. SENATEUR VAILLANCOURT: Oui, l'assuran-
20 ce-prêt, au cas de mortalité.

21 M. LE COMMISSAIRE BEAUVAIS: Mais votre taux
22 sur prêts hypothécaires?

23 HON. SENATEUR VAILLANCOURT: Prenez par
24 exemple la Caisse populaire de Lévis, celle que je
25 connais mieux, c'est la plus vieille, nous prêtons à
26 5½ p. 100, et depuis un certain nombre d'années, on
27 donne une ristourne de ½ de 1 p. 100, ce qui fait que
28 le taux d'intérêt est de 5 p. 100, mais l'assurance
29 n'est pas incluse.

30 M. LE COMMISSAIRE BEAUVAIS: L'assurance



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2 représente quoi, à peu près?

3 HON. SENATEUR VAILLANCOURT: 72c. par
4 \$100. par année.

5 M. LE COMMISSAIRE BEAUVAIS: Cela remonte
6 le taux à combien?

7 M. TREMBLAY: 5½ p. 100.

8 HON. SENATEUR VAILLANCOURT: Pas tout à fait
9 5½ p. 100, entre 5 et 5½ p. 100, mais à chaque fois
10 que vous avez remboursé \$100, la prime diminue.

11 M. LE COMMISSAIRE BEAUVAIS: Evidemment,
12 parce que le risque diminue?

13 HON. SENATEUR VAILLANCOURT: Evidemment;
14 c'est dire que c'est 5½, 5.70 ou 5.72 p. 100, ça dépend
15 du montant que vous devez.

16 THE CHAIRMAN: I should like to ask a few
17 questions.

18 I am very much impressed by this social
19 organization. As a matter of fact, I am the President
20 of the Canadian Welfare Council, and this is a story
21 which we should know, apart altogether from taxation.
22 This is a great social story and it is something I
23 did not know before. I had an idea of what Credit
24 unions were, but I had no idea of the extent of the
25 social values of the Caisses populaires movement.

26 The only question which occurs to me is
27 perhaps related to a better understanding of the
28 financial side. I have before me the balance sheet
29 which shows in the first column the local Caisses
30 populaires, and I can understand that. Central credit



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2 societies. Now, that would include the Federation,
3 I would imagine, and there are a number, I think, of
4 regional organizations. I have an idea that you
5 mentioned five, and yet I see down here at the bottom
6 of the sheet a reference to ten. Would there be ten
7 regional organizations?

8 SENATOR VAILLANCOURT: Yes.

9 On pages 169 and 170, we have a detailed
10 summary of operations, to December 31st, 1961.

11 M. TREMBLAY: C'est que la Fédération n'est
12 pas un organisme moral, qui n'a pas de dépôts ou de
13 transactions financières. Ce sont des Caisses qui
14 font partie de la Fédération, mais il n'y a pas de
15 chiffres qui appartiennent en propre à la Fédération
16 dans ces chiffres. Ce sont des chiffres d'actif et
17 de passif des Caisses locales dans la première colon-
18 ne, et dans la deuxième colonne, des Caisses régiona-
19 les seulement, et non de la Fédération.

20 SENATOR VAILLANCOURT: There is one per cent
21 paid at the end of the year, and the Federation does
22 not receive any saving. We spend the money for
23 inspection, and so on.

24 THE CHAIRMAN: I gather that the Federation
25 is not included in this balance sheet here?

26 SENATOR VAILLANCOURT: No.

27 THE CHAIRMAN: Now, is there a balance
28 sheet of the Federation? I understand that the
29 Federation itself receives the fees and there is an
30 amount, as you have explained to Mr. Beauvais, spent



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2 on technical inspections and services, and so on.
3 Can I find a balance sheet in the pages here? Do you
4 publish a balance sheet of the Federation?

5 M. TREMBLAY: Nous avons nos états finan-
6 ciers. Maintenant, nous n'avons pas d'objection, je
7 ne pense pas, à les mettre à la disposition de la
8 Commission, cela n'a aucune valeur. Ce sont des ser-
9 vices que nous donnons tout simplement; à la fin de
10 l'année, nous avons reçu un million en contributions,
11 il y a un million de dépenses.

12 M. LE COMMISSAIRE BEAUVAIS: Il n'y a pas
13 d'actif?

14 M. TREMBLAY: Il n'y a pas d'actif aujourd'-
15 hui.

16 HON. SENATEUR VAILLANCOURT: Ecoutez,
17 c'est une affaire qui existe depuis des années. Nous
18 avons des fonds, seulement c'est une somme minime en
19 comparaison de ce qui existe, c'est un organisme de
20 services, tout simplement.

21 THE CHAIRMAN: Thank you, I understand.
22 The reserves are carried in the central credit
23 societies which does not include the Federation?

24 HON. SENATEUR VAILLANCOURT: Oui.

25 M. TREMBLAY: Ce ne sont pas les Caisses
26 centrales qui administrent les réserves des Caisses
27 locales; ce qu'il y a dans les Caisses centrales,
28 c'est simplement le liquide supplémentaire, l'argent
29 qui autrement serait improductif, qui est déposé
30 provisoirement à la Caisse régionale pour en faire,



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2 éventuellement, des placements, ou en retirer pour
3 prêter aux sociétaires, s'il y avait lieu, ou encore
4 servir pour le compte du fonds de compensation.

5 M. LE COMMISSAIRE BEAUVAIS: Oui. Si une
6 Caisse locale prêtait \$10,000 à la Caisse régionale,
7 est-ce que cette dernière pourrait se servir de ce
8 \$10,000 pour financer une autre Caisse?

9 HON. SENATEUR VAILLANCOURT: Non, non, elle
10 dépose seulement, c'est son argent liquide, l'encaisse-
11 ment des chèques, et puis à part ça, pour pas avoir
12 à garder chez elle des montants considérables, parce
13 que c'est dangereux de ce temps-ci, parce qu'il y a des
14 maîtres-voleurs qui passent ici et là. Et les Caisses
15 ne prêtent que ce qu'elles ont, parce que autrement,
16 cela a été fait en 1932, on a eu une expérience en 1932,
17 il y a des Caisses qui ont été serrées et qui ont été
18 obligées de fermer leurs portes, elles avaient prêté,
19 pour remprunter, ce qui est un faux principe, car on
20 ne peut pas donner plus qu'on a.

21 La Caisse locale administre ses propres
22 affaires, sa propre Caisse. La seule chose qu'on a,
23 c'est quand une Caisse populaire veut acheter des
24 valeurs, car elle ne peut pas garder tout son argent
25 liquide, on dit "gardez 50 p. 100 de votre argent li-
26 quide" et pour acheter des valeurs, elle est obligée
27 de demander à la Fédération, pour ne pas qu'elle paie
28 trop cher, et enfin organiser son budget, ses éché-
29 ances, année par année, cela ne devrait pas dépasser
30 dix ans d'échéance, mais c'est elle qui décide ce



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2 qu'elle doit acheter.

3 THE CHAIRMAN: One more question, Senator.
4 The investment income for the year ending December 31st,
5 1960, in the case of the local Caisse is \$6,900,000,
6 and for the central credit societies it is \$2 million.
7 These are earnings in respect of reserves, I would
8 think, rather than on the earnings of loans made to
9 members. The loans made to members are under a sepa-
10 rate heading, I believe, and are shown at \$17 million.
11 If that is the case, I would suggest that the interest
12 rates which you charge to the members are lower than
13 they would be without the earnings with respect to
14 these reserves, because the investment earnings of the
15 local Caisses are \$3,000,190, and if there were no
16 investment income there would be no retained earnings.
17 Am I clear?

18 M. TREMBLAY: Monsieur Carter, si vous re-
19 gardez à la page à gauche, vous allez voir à la ligne
20 29, qu'il y a 223 millions dans le portefeuille des
21 Caisses locales, qui portent intérêt, et dont le pro-
22 duit est inclus dans la somme de \$6,900,000, à l'état
23 des revenus que vous venez de citer. Par contre, il
24 y a 65 millions de placements pour les Caisses cen-
25 trales, qui expliquent votre 2 millions de revenus,
26 à l'item Caisses centrales, à la page suivante.

27 Alors, il n'est pas exact de dire que les
28 \$6,900,000 de revenus de placements aux Caisses loca-
29 les, et les \$2,000,000 aux Caisses centrales sont le
30 résultat du fonds de réserve, ou du travail du fonds



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de réserve. C'est une partie, si vous le voulez, du
revenu de la Caisse, mais une partie seulement. Le
reste, c'est simplement de la liquidité que nous de-
vons garder, comme les banques ont une liquidité
avec leur réserve permise, à la Banque du Canada,
ou en d'autres valeurs.

COMMISSIONER PERRY: There are just one or
two minor points I would like to raise. I recall
when an answer was given to the question as to whether
you make commercial loans at all, that you didn't.
Is that a proper understanding?

HON. SENATEUR VAILLANCOURT: Nous ne faisons
pas de prêts commerciaux.

COMMISSIONER PERRY: I just wanted to be
clear on that.

M. TREMBLAY: Qu'est-ce que vous entendez
par prêts commerciaux?

COMMISSIONER PERRY: A loan other than to
an individual for his own personal use I would think.

M. TREMBLAY: Bien, nous avons d'autres
prêts, pas des prêts particuliers, à des corps publics,
par exemple la municipalité, la commission scolaire,
la fabrique et des sociétés coopératives locales et,
dans certains cas, on vous a dit tout à l'heure que
nous avons des Caisses dans 476 localités où il n'y
a pas de succursale ou agence de banque, il est possi-
ble que dans ces endroits-là, il y ait un petit mar-
chand qui va être sociétaire de la Caisse, mais ça
c'est un fait qu'on fait jamais de prêt sur escompte.



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2 HON. SENATEUR VAILLANCOURT: Sur première
3 hypothèque.

4 M. TREMBLAY: Ces choses-là vont se produire;
5 pour un commerçant, vous n'avez pas de prêt sur es-
6 compte à une industrie, dans le commerce, dans les centres.

7 COMMISSIONER PERRY: I am not suggesting
8 that there is anything wrong with it. It is just for
9 information.

10 HON. SENATEUR VAILLANCOURT: Nous ne faisons
11 aucun prêt garanti par la marchandise, par exemple;
12 on n'a pas le droit de faire cela.

13 M. LE COMMISSAIRE BEAUVAIS: Quand vous
14 faites un prêt à un marchand, supposons pour un moulin
15 à scie, vous procédez toujours par hypothèque?

16 HON. SENATEUR VAILLANCOURT: Ah! oui, c'est
17 un prêt, définitivement, mais ça, ça arrive dans les
18 endroits où il y a rien; à part ça, on peut rien faire.
19 Il y a peut-être pas 1 p. 100 de nos affaires.

20 M. CHARRON: Parce qu'un prêt à une indus-
21 trie peut être de deux natures. Il y a le prêt de
22 nature bancaire, le financement des opérations de
23 nature bancaire, on ne fait pas de ces prêts-là.

24 COMMISSIONER PERRY: This anticipates
25 an extra question which was about mortgage loans on
26 business properties.

27 SENATOR VAILLANCOURT: No.

28 COMMISSIONER PERRY: So that all your mort-
29 gage loans are on residential properties?

30 SENATOR VAILLANCOURT: Yes.



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2 M. TREMBLAY: It is possible that out of
3 our 1,200,000 members, we would have security on a
4 building. Mais ce n'est pas la pratique régulière.

5 Et maintenant pour la gouverne de la Com-
6 mission, notre économiste me dit que depuis 1945 la
7 totalité des prêts aux coopératives et corps publics
8 consentis par les Caisses dans la province est de
9 \$75,000,000 seulement, ce qui est une infime partie
10 du volume total des prêts. Alors, cela fait 18 ans;
11 sur une période de 18 ans, on a prêté \$75,000,000.

12 COMMISSIONER PERRY: Has it ever been
13 suggested to you that the return of annual surplus
14 as a reduction in the debt of borrowers should be
15 subject to personal income tax? Please just take
16 the question as stated. I am not suggesting or
17 implying or anything of the sort. I am asking you
18 whether this has ever been put to you?

19 HON. SENATEUR VAILLANCOURT: Voici une
20 réduction, n'est-ce pas, qui se fait, et c'est telle-
21 ment minime, car vous savez que les gens qui viennent
22 chez nous, on ne leur prête pas \$40,000 ou \$50,000.
23 La généralité, c'est sur hypothèque, variant de \$7,000
24 à \$10,000. Alors, si à la fin de l'année, on donne
25 de 1 p. 100, cela va donner une affaire de \$10. ou
26 \$15. C'est une bagatelle, mais sur la masse, cela
27 ferait quelque chose.

28 M. LE COMMISSAIRE BEAUVAIS: Quel est le
29 nombre moyen d'emprunteurs?

30 HON. SENATEUR VAILLANCOURT: Le nombre



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2 d'emprunteurs? Attendez un peu. Voyez-vous, en 1962,
3 le nombre d'emprunts, de reconnaissances de dettes
4 s'élevait à 135,273, et sur hypothèques, 24,452.
5 Ce sont de nouveaux prêts, cela.

6 M. LE COMMISSAIRE BEAUVAIS: Je demande le
7 total. Est-ce que c'est beaucoup plus que cela, parce
8 que vous dites que la réduction d'intérêt est minime?

9 HON. SENATEUR VAILLANCOURT: La ristourne?

10 M. LE COMMISSAIRE BEAUVAIS: Oui?

11 HON. SENATEUR VAILLANCOURT: Ce n'est pas
12 grand-chose, la différence, parce que c'est de l'ar-
13 gent qui tourne, voyez-vous; au 31 décembre, le nombre
14 d'emprunteurs était 135,579 sur billets, sur recon-
15 naissances de dettes, et sur hypothèques, 86,864.

16 COMMISSIONER PERRY: I was deliberately
17 asking whether this suggestion had ever been made to
18 you, whether it had ever been raised, as a suggestion,
19 for example by authorities in Ottawa?

20 M. TREMBLAY: Bien, indirectement, il en a
21 été question lors de la Commission d'enquête sur les
22 coopératives en 1946. Il a été question, à ce moment-
23 là, indirectement, de taxation des coopératives, et
24 d'ailleurs la Commission Macdougall devait même se
25 prononcer à ce sujet-là. La Chambre des communes
26 a introduit ou inclus dans la législation une partie
27 des recommandations du rapport de la Commission Macdou-
28 gall, mais il n'y a jamais eu d'autres interventions,
29 à ma connaissance, bien que les journaux nous disaient
30 "il y a bien des gens qui sont intéressés à ce que



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2 vos surplus ou excédents qui sont remis aux emprun-
3 teurs sous forme de ristourne ou autrement soient
4 taxés comme les autres.

5 COMMISSIONER WALLS: The Hon. Senator, at
6 the beginning of his remarks, stated that you hoped
7 to achieve the effect of educating two or three per
8 cent of the population to sound financial practice.
9 I think you far exceeded your aim, because as I under-
10 stand it 14 per cent of all the population in Canada
11 deals with credit unions, and one-half of all credit
12 union members are located in the Province of Quebec.
13 So your percentage must be quite high. I only make
14 that as an initial remark..

15 The question I want to ask is that the
16 legislation dealing with credit unions varies greatly
17 between one province and another, and there is one
18 factor that is quite different between your Caisses
19 populaires and other credit unions, in that in other
20 provinces they require government control, or govern-
21 ment inspection, whereas I understand your Quebec Act
22 has passed this on to your parent organization,
23 your Federation, to do the inspection and control, sort
24 of I believe on the same basis that the father can
25 control his son and guide him better than an outside
26 agency.

27 Have you found this in effect to be true?
28 Are you able to guide these locals when they head into
29 wrong practices quicker, do you feel, by doing this
30 service yourselves, and what losses, if any, have



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2 the members of your locals encountered, or what
3 dissolutions have there been in recent years as a
4 result of bad practice?

5 HON. SENATEUR VAILLANCOURT: Bien, voici.
6 Nous croyons encore que depuis que nous faisons
7 l'inspection, depuis 1932, que notre inspection est
8 plus efficace que si c'était une inspection gouverne-
9 mentale, parce que quand l'inspecteur du gouvernement
10 passe, on s'occupe simplement du fait si ça balance
11 dans les livres, tandis que chez nous ce n'est pas
12 simplement de voir si les livres balancent, c'est de
13 savoir si on respecte la loi, l'esprit de la loi des
14 Caisses populaires, l'esprit des règlements.

15 Deuxièmement, avec notre inspection, nous
16 connaissons nos gens, ce que le gouvernement, lui,
17 qu'il soit à Ottawa ou à Québec, ne peut voir. Et
18 supposons qu'un gérant de Caisse populaire fait une
19 vie un peu extraordinaire, qui a tel salaire mais qui
20 vit comme un millionnaire ou un bon homme qui en au-
21 rait le double, alors, tout de suite on est là avec
22 nos inspecteurs régionaux, et puis on va faire deux,
23 trois, quatre et même cinq inspections dans la même
24 année, ce que le gouvernement ne fait pas dans les
25 autres provinces. C'est de cette façon-là qu'on pré-
26 vient probablement des pertes, c'est-à-dire que c'est
27 une façon de parler, car depuis que les Caisses popu-
28 laires existent dans le Québec, depuis 63 ans, nous
29 n'avons pas perdu, d'après toutes les recherches que
30 nous avons faites, 1/40 de 1 p. 100 de l'argent qui



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2 a été déposé chez nous, Alors, cela devient, disons,
3 une somme négligeable, 1/40 de 1 p.100. Et nous in-
4 cluons les vols là-dedans, et vous savez les vols
5 commis par les gangsters, aujourd'hui, les hold-ups,
6 c'est ça qui nous coûte le plus cher. Alors, nous
7 avons des assurances pour nous protéger contre cela,
8 pour prévenir tout cela.

9 Maintenant, nous croyons encore qu'avec
10 nos inspections sur place, par les inspecteurs de la
11 Fédération et des Unions régionales, c'est beaucoup
12 plus efficace que n'importe quelle organisation du
13 gouvernement.

14 M. LE COMMISSAIRE WALLS: Merci, sénateur.

15 COMMISSIONER GRANT: Well, gentlemen, I am
16 much impressed with the organization, and the questions
17 which I start to address to you now have to do more
18 with the administration end of the organization than
19 with the financial end.

20 I am interested in knowing that you have
21 476 locals in areas where there are no banks, and do
22 I understand the situation correctly when you say that
23 these locals are autonomous in so far as the granting
24 of a loan is concerned? If a borrower wishes to borrow
25 money he approaches his local, and as to whether or not
26 he is a worthy borrower that decision is made by the
27 local. The local then is made up of the citizens,
28 or a group of citizens of that particular parish, or
29 area, and the only supervision which the parent body
30 keeps over that, or has over that, is really the



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2 inspections which are carried out annually, or perhaps
3 more often, and they see whether or not the loan is
4 in good shape.

5 Would you tell me again, it is probably in
6 the brief, I think it is, but what proportion of your
7 loans are personal loans, and what proportion are
8 mortgages, in dollars?

9 MR. TREMBLAY: Dollar volume?

10 MR. MORIN: New loans made during the year,
11 or at the end of the year?

12 COMMISSIONER GRANT: At the end of the year?

13 SENATOR VAILLANCOURT: Loans on notes at
14 the end of 1962, les prêts sur billets, à la fin de
15 l'année 1962, s'élevaient à \$84, 691,000, et les prêts
16 sur hypothèques à \$357,000,000, je vous donne les
17 chiffres ronds. Alors, le total des prêts était de
18 \$442,000,000; ça, c'est à la fin de l'année.

19 M. MORIN: Sur cet aspect-là, j'aimerais
20 ajouter le point de vue suivant. Un prêt sur billet,
21 normalement, est remboursable dans onze mois, tandis
22 qu'un prêt sur hypothèque est remboursable dans 5 ans,
23 en moyenne. Depuis 5 ans, on a tendance à prêter sur
24 billet, de plus en plus. En chiffres, évidemment,
25 c'est à peu près la proportion de 5 à 1, et en volume,
26 on en est rendu au même volume, à peu près, prêté
27 annuellement, sur billets que sur hypothèques, et comme
28 les prêts sur hypothèques durent plus longtemps, le
29 solde, à la fin de l'année, est plus important, sur
30 hypothèques.



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2 COMMISSIONER GRANT: I think you said that
3 your loans are taken all on residential properties, and
4 that the local has the say as to whether or not that
5 loan is going to be made.

6 Payments are amortized?

7 SENATOR VAILLANCOURT: Yes.

8 COMMISSIONER GRANT: Your loans must be quite
9 small. They are not large loans?

10 HON. SENATEUR VAILLANCOURT: Nous prêtons
11 dans les villes; aujourd'hui, la moyenne des prêts,
12 dans les villes, est de \$10,000; autrefois, c'était
13 \$5,000, parce que tous les coûts augmentent. Mainte-
14 nant, au point de vue agricole, du prêt même, mettez
15 un peu plus que cela, parfois dans la campagne, mais
16 ça peut monter à \$12,000 ou \$13,000, mais c'est une
17 exception, parce que aujourd'hui, avec le prêt agri-
18 cole fédéral et le prêt agricole provincial, eh bien,
19 c'est lui qui prend toute la chose. Alors, aujourd'hui,
20 c'est surtout autour des villes qui s'agrandissent, les
21 villes dans la périphérie de Montréal, Québec. Les
22 nouvelles constructions ont atteint un rythme extra-
23 ordinaire, et on fait les prêts remboursables mensuel-
24 lement pour une période de 15, 18 ou 20 ans, cela
25 dépend de celui qui emprunte. Car en fin de compte,
26 vous avez, lorsque quelqu'un veut emprunter, on
27 regarde la garantie morale de l'emprunteur: c'est la
28 première chose. Et même qu'il nous offrira 100,
29 200 ou 300 p. 100 de garantie, si c'est un homme qui
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2 fait une vie désordonnée, on ne lui prêtera pas, parce
3 que ce bonhomme-là pourrait faire autre chose que
4 bâtir une maison pour loger sa famille avec cet argent-
5 là. Il va peut-être faire des folies avec ça. Il
6 est obligé de dire pourquoi il emprunte, et s'il mène
7 une vie désordonnée, on ne lui prête pas. C'est le
8 premier principe fondamental.

9 Et deuxièmement, quel est son revenu? Si
10 c'est un bonhomme qui est en chômage, eh bien, on va
11 lui dire d'aller à la Saint-Vincent-de-Paul, mais pas
12 à la Caisse populaire.

13 M. TREMBLAY: Monsieur Beauvais, vous avez
14 en annexe au rapport à la Commission Royale d'enquête
15 sur les institutions financières la distribution des
16 prêts aux sociétaires, par catégories, soit sous le
17 chapitre de dettes ou prêts personnels, ou soit de
18 prêts hypothécaires. Alors, vous avez toute la ré-
19 ponse détaillée, depuis plusieurs années, à la ques-
20 tion que vous venez de poser, à savoir l'importance
21 de chacun des prêts en nombre et en volume ou valeur.

22 M. LE COMMISSAIRE BEAUVAIS: Est-ce que nous
23 pourrions avoir quelques exemplaires de cela?

24 HON. SENATEUR VAILLANCOURT: Oui, on va
25 vous en envoyer, en anglais et en français.

26 Sur les prêts hypothécaires, en 1958, nous
27 avons consenti 20,534 prêts pour une somme de
28 \$78,000,000; en 1959, 18,182 prêts, soit \$83,000,000,
29 parce que le coût des maisons augmentait. En 1960,
30 15000 prêts pour \$61,000,000; en 1961, 24,000 prêts



pour \$98,000,000; en 1962, 24,332 prêts pour \$105 millions, parce que le coût des maisons augmentait.

Mais quand vous arrivez aux prêts sur billets, depuis quelques années, nous cherchons, n'est-ce pas, à prêter à peu près de la même façon, afin de faire une compétition, si on peut appeler cela de la compétition, avec les compagnies qui prêtent à 24 ou 25 p. 100. Alors, vous prenez en 1958, nous avons fait 91,000 prêts sur billets, pour 51 millions; en 1959, 92,900 prêts pour 60 millions; en 1960, 98,448 prêts pour 65 millions, et en 1961, c'est là que cela a donné un coup, pour ainsi dire, 123,000, prêts sur billets, pour un montant de 80 millions, et voyez-vous, sur hypothèques, 98 millions, on se rapproche tout le temps, là. En 1962, 135,000 prêts pour 97 millions.

Autrefois, on prêtait \$300 ou \$400 sur billet, mais aujourd'hui, avec la nouvelle manière de vivre, vous achetez un réfrigérateur, un poêle électrique, une lessiveuses, ces choses-là, c'est beaucoup plus cher qu'autrefois. Alors, on augmente aujourd'hui à \$1000 ou \$2000 sur billet. C'est une des raisons, cela.

COMMISSIONER GRANT: Finally, one more question. Did I understand you to say that you set aside in your reserve fund 10% of your income in any given year?

HON. SENATEUR VAILLANCOURT: Non, sur le fonds de réserve, on met 20 p. 100, mais des bénéfices



des bénéfices nets, après que tout a été payé, on met 20 p. 100 une fois toutes les dépenses payées.

M. GIRARDIN: Dépenses d'intérêt aussi.

HON. SENATEUR VAILLANCOURT: Intérêts payés.

M. CHARRON: Dépréciation.

HON. SENATEUR VAILLANCOURT: Dépréciation avant le boni, ce que l'on paie sur les parts; alors, le 20 p. 100, ça, c'est quand toutes les dépenses sont payées, pas sur le bénéfice brut, mais après.

COMMISSIONER GRANT: Thank you very much.

THE CHAIRMAN: Senator, I would like to ask a question. There is the point as to why it is necessary for commercial organizations who are entering into the small loans business to charge 20 per cent, whereas these people are able to operate satisfactorily at seven per cent and eight per cent. I understand that these people do not get the free services that you are talking about. Could we have an explanation, if there is one?

HON. SENATEUR VAILLANCOURT: D'abord, nous ne faisons pas de publicité pour annoncer les prêts, on ne fait pas de publicité, parce que nous faisons affaires seulement avec nos sociétaires. Alors, nos sociétaires le savent.

Deuxièmement, puisque l'emprunteur s'en vient chez nous pour emprunter, il doit dire pourquoi il emprunte, et je vous ai déjà dit que nous cherchions à faire l'éducation. Or, voici qu'un bonhomme veut emprunter, comme l'autre jour, par exemple, il nous



1
2 est arrivé et nous a dit "je veux emprunter à la Cais-
3 se populaire". Je lui demande "pourquoi voulez-vous
4 emprunter"? Il me répond "pour acheter un manteau de
5 fourrure à ma femme, un manteau de \$3000.". Je lui
6 demande "combien gagnez-vous"? Il me répond "\$4000".
7 Là, je lui ai dit "écoutez, c'est une affaire qui n'a
8 pas de bon sens". Alors, on lui dit "écoutez donc, un
9 peu, mettez donc de l'argent de côté, et quand vous
10 aurez \$2000 ou \$3000, vous pourrez acheter le manteau
11 de fourrure, mais avant ça, achetez donc un manteau
12 d'étoffe ordinaire". C'est de cette façon que nous
13 cherchons à éduquer nos gens, vous savez "pensez avant
14 de dépenser" et puis nous ne faisons pas d'annonces
15 dans les journaux pour vendre n'importe quoi, acheter
16 n'importe quoi, parce que dans les journaux, à la
17 télévision, partout, on nous dit "dépensez aujourd'hui
18 vous paierez demain". Lor, l'été dernier, je demande
19 à un bonhomme "où passes-tu tes vacances cet été"?
20 Il me dit "dans la cuisine". Je lui demande pour
21 quelle raison, et il me répond "il faut que je paye
22 les vacances de l'an dernier; cette année, j'en prends
23 pas". Vous voyez que c'est ridicule; chez nous, ça
24 n'arrivera pas.

25 M. LE COMMISSAIRE BEAUVAIS: Il me reste
26 deux petites questions à poser. Quel est le taux
27 d'intérêt moyen sur les prêts non garantis?

28 HON. SENATEUR VAILLANCOURT: Les prêts sur
29 billets?

30 M. LE COMMISSAIRE BEAUVAIS: Oui?



HON. SENATEUR VAILLANCOURT: Six, sept pour cent, sur reconnaissance de dette.

M. LE COMMISSAIRE BEAUVAIS: Est-ce que cela inclut l'assurance, la moyenne?

HON. SENATEUR VAILLANCOURT: Dans la moyenne, il est inclus, le taux d'assurance, la moyenne.

M. TREMBLAY: La moyenne arithmétique est de 6.63 p. 100, et de 5.57 sur hypothèques.

M. LE COMMISSAIRE BEAUVAIS: Et maintenant l'assurance, je comprends que c'est environ 76c. par \$100?

HON. SENATEUR VAILLANCOURT: 72c.

M. LE COMMISSAIRE BEAUVAIS: 72c. du \$100?

HON. SENATEUR VAILLANCOURT: Oui.

M. LE COMMISSAIRE BEAUVAIS: Maintenant, est-ce que c'est une compagnie séparée, la compagnie d'assurance?

HON. SENATEUR VAILLANCOURT: Oui, c'est une compagnie séparée, et puis une compagnie qui paye ses taxes.

M. LE COMMISSAIRE BEAUVAIS: La compagnie d'assurance paie de l'impôt comme toute autre compagnie d'assurance?

HON. SENATEUR VAILLANCOURT: Oui.

M. TREMBLAY: C'est une compagnie ordinaire.

M. LE COMMISSAIRE BEAUVAIS: Y a-t-il des questions que vous voulez nous poser, sénateur?

HON. SENATEUR VAILLANCOURT: Non, on est ici pour se faire poser des questions.



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2 M. LE COMMISSAIRE BEAUVAIS: Apparemment,
3 les commissaires n'ont pas d'autres questions à vous
4 poser à vous-même ou à vos collègues. Je suis d'avis
5 que notre discussion a été des plus constructive, et
6 je vous remercie des éclaircissements que vous avez
7 bien voulu nous donner.

8 HON. SENATEUR VAILLANCOURT: Si vous le
9 permettez, M. Girardin, qui est un ancien principal
10 d'école, voudrait ajouter un mot sur l'éducation des
11 jeunes.

12 M. LE COMMISSAIRE BEAUVAIS: Certainement.

13 M. GIRARDIN: Monsieur le président, lorsqu'
14 en 1939 nous avons lancé à Montréal notre campagne
15 d'éducation pour l'épargne scolaire, laquelle existait
16 dans la province de Québec et à Montréal depuis 1908,
17 les élèves déposaient environ \$40,000 par année, et
18 sur 100,000 élèves, il y en avait environ 13,000 ou
19 15,000 qui déposaient.

20 Nous avons adopté un système particulier
21 qui fait participer l'enfant à la comptabilité, et
22 dès la première année, les enfants ont déposé un tiers
23 de million, soit \$330,000 en 1939, et depuis, à
24 Montréal, les enfants ont déposé 17 millions et il
25 reste à leur crédit, 4 millions, et des 180,000 élèves
26 qu'il y a à Montréal, 135,000 ont leur livret d'épar-
27 gnes dans les écoles de la commission scolaire de
28 Montréal, dans les écoles catholiques de Montréal.
29 Dans la province de Québec, il y a plus de 400,000
30 élèves, parce que cette éducation se répand à travers



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2 la province, et aujourd'hui, il n'y a pas une Union
3 régionale qui n'est pas entrée dans le système, il
4 n'y a pas une Caisse populaire qui ne visite pas une
5 école de son territoire pour inviter l'enfant à dépo-
6 ser régulièrement. C'est pourquoi à travers la
7 province nous comptons plus de 400,000 élèves qui
8 ont leur livret d'épargnes et qui ont à leur crédit
9 plus de 7 millions et demi. Voilà un exemple de
10 l'éducation par les Caisses populaires, qui a débuté
11 à zéro en 1939.

12 M. LE COMMISSAIRE BEAUVAIS: C'est très
13 intéressant, et ceci explique bien ce que le sénateur
14 a dit au début, que c'est une école d'épargnes.

15 Alors, je vous remercie encore une fois,
16 sénateur, ainsi que vous collègues. Nous vous sommes
17 bien reconnaissants.

18 LE PRESIDENT: Honorable sénateur et
19 messieurs, je vous remercie de votre présence et de
20 votre excellent mémoire. Votre mouvement est vraiment
21 dans les meilleures traditions de votre province.

22 Merci beaucoup, messieurs.

23 HON. SENATEUR VAILLANCOURT: Merci, monsieur
24 le président.

25 ---L'audience est suspendue pour quelques minutes.
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2 LE SECRETAIRE: Monsieur le président,
3 Nous avons maintenant les représentants
4 de la Chambre de Commerce du district de Montréal.
5 M. H. Marcel Caron, président de la Chambre, vous
6 parlera du mémoire et vous présentera ses collègues.

7 Mr. Chairman, I would like to enter this
8 brief as Exhibit No. 27 in the record.

9
10 ---EXHIBIT No. 27: Submission of the Chamber
11 of Commerce of the District
12 of Montreal.

13 PRESENTS: MM. H. Marcel Caron
14 Paul Clément
Maurice Duval
Charles McLaughlin
Marcel Camirand
Marcel St-Denis

15 LE PRESIDENT: Bonjour, monsieur Caron et
16 messieurs de la Chambre de Commerce. Nous allons
17 parler français aujourd'hui, et ce au moyen du
18 système d'interprétation simultanée. Je vais mante-
19 nant demander à M. Beauvais de continuer l'assemblée,
20 parce qu'il est le seul de ce côté-ci de la table
21 qui parle les deux langues.

22 Voulez-vous continuer, monsieur Beauvais,
23 s'il vous plaît?

24 M. LE COMMISSAIRE BEAUVAIS: Au nom de
25 mes collègues et de moi-même, il me fait plaisir, tout
26 d'abord, de vous souhaiter la plus cordiale bienvenue.
27 Nous nous rencontrons ce matin afin d'étudier ensem-
28 ble certains points soumis dans votre mémoire. Il
29 ne s'agit pas de les régler ni d'y trouver une solu-
30 tion, mais plutôt de les étudier ou d'en discuter.



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2 Vous trouverez le nom de chacun des com-
3 missaires devant lui, et vous pourrez les identifier
4 facilement.

5 Et maintenant, monsieur Caron, j'aimerais
6 que vous nous présentiez vos collègues et nous posiez
7 des questions, ou encore que vous fassiez une déclai-
8 ration comme préambule.

9 M. CARON: Monsieur le président, j'aime-
10 rais d'abord vous remercier, au nom de la Chambre
11 de Commerce du district de Montréal de nous recevoir
12 ce matin pour présenter notre mémoire.

13 We all speak and understand the English
14 language. We might not be too precise in our
15 answers, but there will be no difficulty if the
16 discussion is carried on in English.

17 M. LE COMMISSAIRE BEAUVAIS: J'apprécie
18 vos observations, mais étant donné que nous avons
19 un sténographe français et un sténographe anglais,
20 et que le tout est organisé pour le français, je
21 vous demanderais de poursuivre les délibérations et
22 la discussion en français.

23 M. CARON: De sorte que si nous ne sommes
24 pas absolument précis dans nos réponse, nous n'aurons
25 pas d'excuse à offrir.

26 LE PRESIDENT: De plus, nous avons payé
27 pour la location de l'équipement.

28 M. CARON: J'aimerais vous présenter mes
29 collègues de la Chambre de Commerce. Tout d'abord
30 M. Paul Clément, qui est un APA, un comptable qui



1
2 pratique; M. Maurice Duval, comptable agréé qui, lui
3 aussi, est en pratique publique. M. Georges Grondin,
4 qui est au Royal Trust, dans la division des succes-
5 sions, et particulièrement celle de l'administration;
6 M. Jacques LaRivière, un banquier, de la Banque Cana-
7 dienne Nationale; M. Charles McLaughlin, qui est
8 directeur des impôts de la société Canadian Industries
9 Limited, et qui, comme vous le savez, a fait partie
10 de plusieurs groupes chargés d'étudier la question
11 des impôts, des taxes, etc. M. Marcel St-Denis, qui
12 est un associé de la société Jacques Mélançon & Cie,
13 financiers. M. Guy Vary, qui est un comptable agréé
14 en pratique publique; M. Marcel Camirand, qui est un
15 comptable agréé également, associé de Clarkson,
16 Gordon & Cie. De notre secrétariat, nous avons M.
17 Maurice Chartrand, qui est le directeur général ad-
18 joint de la Chambre, et M. Yvon Tremblay, qui est le
19 coordonnateur de nos comités d'études. Pour ma
20 part, monsieur le président, je suis président, cette
21 année, de la Chambre de Commerce du district de
22 Montréal et, comme vous le savez, en pratique publique
23 chez Clarkson, Gordon & Cie.

24 Le mémoire que nous vous présentons est
25 une étude préliminaire des problèmes que nous voulons
26 soulever mais auxquels, malheureusement, nous n'avons
27 pu trouver toutes les solutions. Mais nous avons
28 cependant voulu indiquer à la Commission les domaines
29 dans lesquels nous étions particulièrement intéressés,
30 afin que des études plus poussées soient entrepri-



1
2 ses, puisque à ce stade-ci, il nous était impossible
3 de les exécuter nous-mêmes.

4 Si vous le permettez, j'aimerais lire le
5 mémoire, Tout d'abord, je pourrais vous rappeler
6 que la Chambre de Commerce groupe plus de 3000 mem-
7 bres individuels et près de quelque 400 compagnies.

8 Le but premier de la Chambre de Commerce
9 est, en général, de promouvoir le bien-être civique,
10 social et économique des citoyens de Montréal, et en
11 particulier des Canadiens français.

12 Depuis de nombreuses années, nous avons
13 un comité des impôts et nous avons, à l'occasion,
14 soumis des mémoires aux autorités fédérales et pro-
15 vinciales, et même municipales. Le comité a tenu,
16 cette année, 30 séances, dont une forte partie fut
17 consacrée à la préparation de l'étude que vous avez
18 devant vous. Notre comité a pris connaissance des
19 études faites sur les impôts par d'autres groupes
20 et a convoqué quelques économistes pour obtenir leur
21 point de vue, avant de préparer ce mémoire. Les mem-
22 bres du comité ont préparé un mémoire préliminaire
23 qui, je le répète, a été soumis au conseil d'adminis-
24 tration de la Chambre, qui l'a accepté. Ce mémoire
25 préliminaire devient donc l'opinion officielle de la
26 Chambre de Commerce du district de Montréal.

27 Nous espérons pouvoir vous présenter un
28 texte plus élaboré pour appuyer certaines opinions
29 exprimées dans ce mémoire, si nous le jugeons à
30 propos, à la lumière des développements futurs.



1
2 Le préambule de notre mémoire: le premier
3 principe a trait à l'ordre constitutionnel. Comme vous
4 le savez, c'est dans l'Acte de l'Amérique du Nord
5 britannique que les responsabilités et les pouvoirs
6 du gouvernement fédéral et ceux des gouvernements
7 provinciaux sont définis.

8 Le gouvernement fédéral a des pouvoirs de
9 taxation et les gouvernements provinciaux ont, eux
10 aussi, des pouvoirs de taxation selon la ligne de
11 force de leurs responsabilités. Durant la période
12 d'après-guerre, l'Etat fédéral a eu tendance à aller
13 chercher des impôts pour des champs d'action qui ne
14 lui appartenaient pas. De nombreuses études ont déjà
15 été faites pour justifier ou pour blâmer cette action
16 du gouvernement, mais le fait est là, il faut bien le
17 constater.

18 En possession d'importantes sommes d'ar-
19 gent, le gouvernement fédéral a distribué ses largesses
20 par des plans conjoints, des subsides de toute nature.

21 Devant cette situation, la Chambre croit
22 qu'un nouveau partage fiscal devrait être établi entre
23 l'Etat fédéral et les provinces, conformément aux
24 obligations de chacune des parties.

25 En corollaire, la Chambre reconnaît qu'il
26 est nécessaire de subventionner les provinces moins
27 favorisées; mais l'attribution de ces subsides doit
28 se faire au moyen d'un système de péréquation.

29 Le problème délicat qui se pose alors est
30 de savoir jusqu'où peuvent aller les subsides? Est-ce



1
2 que ce système de péréquation devrait être régi par
3 une commission indépendante? Ne devrait-il pas être
4 employé pour les seuls services de base? Ne devrait-il
5 pas s'en tenir au strict minimum?

6 Autant de questions, monsieur le président,
7 que la Chambre se pose et dont elle sera en mesure de
8 donner un exposé plus tard.

9 Mais un autre principe doit être mis de
10 l'avant: le gouvernement fédéral ne devrait pas, dans
11 un régime de péréquation, obliger, directement ou
12 indirectement, les provinces à utiliser les sommes qui
13 sont mises à leur disposition pour une fin déterminée.

14 Il doit laisser aux provinces le droit
15 de disposer des sommes reçues par péréquation, de la
16 façon qu'elles l'entendent.

17 M. LE COMMISSAIRE BEAUVAIS: Monsieur Caron,
18 je m'excuse de vous interrompre, mais ne croyez-vous
19 pas que nous devrions arrêter après chaque paragraphe,
20 afin de permettre aux commissaires de poser des ques-
21 tions? Pour ce qui a trait à la première partie de
22 votre exposé, cela touche particulièrement aux rela-
23 tions fédérales-provinciales, et je ne crois pas que
24 nos termes de référence s'étendent jusque là.

25 M. CARON: Je suis d'accord, seulement la
26 juridiction que peut avoir le gouvernement fédéral....

27 M. LE COMMISSAIRE BEAUVAIS: Je ne veux pas
28 dire par là qu'il n'est pas bien d'en parler dans
29 votre exposé, mais je voulais tout simplement vous
30 rappeler que nos termes de référence ne vont pas



1
2 jusque là.

3 M. CARON: Je vous remercie, monsieur le
4 président, mais nous sommes d'avis que la question
5 est tellement primordiale, que nous voulions l'exposer
6 et surtout exprimer notre point de vue à ce sujet,
7 point de vue qui est peut-être différent de celui
8 exprimé par d'autres.

9 M. LE COMMISSAIRE BEAUVAIS: Nous pourrions
10 peut-être continuer à étudier le mémoire, à la page
11 5.

12 M. McLAUGHLIN: Monsieur le président, j'ai-
13 merais signaler ici que nous réalisons pleinement que
14 la Commission n'a pas juridiction pour étudier le
15 domaine des relations fédérales-provinciales. Toute-
16 fois nous voulons appeler l'attention de la Commission
17 sur le fait que le gouvernement fédéral a prélevé des
18 impôts pour des fins provinciales dans le passé, et
19 nous croyons que ceci concerne votre Commission, bref
20 que vous devez vous occuper d'une situation où le
21 gouvernement fédéral peut prélever des impôts pour
22 fins provinciales, et c'est ce qu'il a fait dans le
23 passé.

24 M. LE COMMISSAIRE BEAUVAIS: Evidemment,
25 c'est une question légale que vous soulevez là, parce
26 que enfin tout est compris dans l'Acte de l'Amérique
27 du Nord britannique, et plus particulièrement les
28 pouvoirs que le gouvernement fédéral peut avoir.
29 Evidemment, pour ce qui concerne les pouvoirs du
30 gouvernement fédéral, c'est très bien, selon les



1
2 termes de référence, mais il me semble qu'en ce
3 qui touche les provinces, nous n'avons aucune juridic-
4 tion.

5 M. McLAUGHLIN: Est-ce que je peux préciser
6 ma pensée un peu plus? Etant donné que vos termes
7 de référence vous limitent à recommander les champs
8 qui respectent la somme totale des revenus perçus
9 par le gouvernement fédéral, il me semble qu'on doit
10 se demander "est-ce que les revenus perçus par la
11 gouvernement fédéral actuellement, doivent l'être
12 s'ils sont perçus pour des fins provinciales"?

13 M. CARON: Nous passons maintenant au
14 deuxième principe, à savoir le système juridique
15 différent.

16 La province de Québec a un système juridique
17 différent de celui existant dans les autres provinces.

18 Dès lors, il est absolument nécessaire que
19 les lois fiscales fédérales soient conçues en tenant
20 compte du droit civil de la province de Québec. Sans
21 quoi on risque de léser une partie importante de la
22 population du Canada.

23 En fait, dans le passé, on n'a pas tenu
24 compte de cette situation particulière de deux régimes
25 juridiques.

26 De nombreux exemples illustrent comment
27 des citoyens ont pu être pénalisés parce qu'on n'avait
28 pas tenu compte de l'incidence du droit civil français.
29 L'impôt sur les dons, les transactions entre mari et
30 femme, entre autres, représentent pour les contribu-



bles de la province de Québec un fardeau beaucoup trop lourd. C'est une situation inconcevable et inacceptable.

Le problème de l'impôt sur les biens transmis au décès est aussi intimement relié au système juridique.

M. LE COMMISSAIRE BEAUVAIS: Monsieur Caron, je n'ai pas de questions à poser sur ce deuxième principe, mais je suis d'avis que notre Commission doit en tenir compte.

M. CARON: D'accord, nous sommes bien heureux de cela.

THE CHAIRMAN: I would like to raise the matter of the taxation of the family. It seems to me that Canadians as a whole have the right to look to this province to lead it into a suitable solution, just as has occurred in the United States. Whether the solution is split incomes, or adding incomes together, or the way it is now, I don't know, but these gentlemen tell us it is unsatisfactory now. I think I share their view, and I hope that they will come forward and give us a solution to the Income Tax aspect of this. I know well that there are many different ways of proceeding. There are a number of studies that have been made, not by us, but in other countries, and I think there are some in Canada, but in my view this area needs to be considered most carefully.

I am under the impression that we are not



1
2 particularly out of line with the civil code law of
3 the Province of Quebec in relation to the taxation
4 of estates. Might I ask if my understanding is
5 incorrect?

6 MR. CARON: Would you repeat your question,
7 Mr. Carter?

8 THE CHAIRMAN: Under your second principle
9 you draw attention to the civil law of the Province
10 of Quebec and the matter of taxation both as to
11 income and estates. I can certainly understand that
12 we don't tax income in accordance with community of
13 property, but I thought that the taxation by the
14 federal government of estates recognized the rights
15 of the different spouses, as established under Quebec
16 law.

17 Am I not correct on that?

18 M. CARON: I think what we have in mind
19 here is that...il y a dans notre Code civil des
20 empêchements. Par exemple, vous n'avez pas le droit
21 de faire un don à votre épouse, en aucun temps, d'après
22 le Code civil. Or, la loi sur l'impôt, comme vous
23 le reconnaissez, permet certaines de ces transactions
24 entre mari et femme, alors que notre Code civil, léga-
25 lement - si vous me permettez d'employer ce terme-là -
26 ne le permet pas ou empêche le contribuable de le
27 faire totalement. Or, il y a là certains avantages
28 dont un contribuable qui n'est pas régi par le Code
29 civil peut bénéficier, alors que nous en sommes
30 empêchés. Ensuite, il y a toute la question du régime



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2 marital, comme le contrat de mariage, que vous venez
3 de mentionner, monsieur Carter. Ce sont des différences
4 qui, à la longue, peuvent amener de grands préjudices.

5 Et l'autre point que vous avez soulevé
6 au point de vue de transmission des biens après décès,
7 comme vous le savez, notre Code civil établit ce que
8 doit être une succession, alors que la loi fédérale
9 en établit une autre qui ne tient pas compte du Code
10 civil. Alors, on a un régime qui suscite des diffi-
11 cultés, à cause de la manière que notre Code est
12 rédigé, et on croit que ceci est de nature à créer
13 des empêchements et des embêtements au contribuable.

14 M. LE COMMISSAIRE BEAUVAIS: A ce sujet,
15 vous dites qu'il y a certains avantages qui sont
16 donnés, en vertu de lois fédérales, dont nous, de
17 la province de Québec, ne pouvons pas bénéficier.
18 C'est vrai. Prenons cet exemple; en vertu de la loi
19 de l'impôt, un contribuable peut faire un don de
20 \$10,000 sur la propriété, à son épouse. Evidemment,
21 ce n'est pas dû à la loi fédérale si les gens de la
22 province de Québec ne peuvent pas en profiter, c'est
23 simplement dû au code civil de la province de Québec.
24 Alors, évidemment, on ne peut pas priver les contribu-
25 bles des 9 autres provinces.

26 M. CARON: Pour nous, les lois du pays doi-
27 vent respecter nos lois locales, car autrement ce
28 n'est plus notre pays, c'est le pays des autres.

29 M. LE COMMISSAIRE BEAUVAIS: Je comprends
30 que nous avons deux systèmes, le Code civil et la



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2 loi commune ou le droit commun. D'un autre côté, si
3 le gouvernement fédéral veut donner un avantage, est-
4 ce qu'on peut lui reprocher que cet avantage-là ne
5 s'applique pas également aux citoyens de la province
6 de Québec ou d'une autre province, parce que la loi
7 de cette province défend de le faire?

8 M. CARON: Dans cette province-là, on se
9 sent pénalisés, vis-à-vis des autres.

10 M. LE COMMISSAIRE BEAUVAIS: D'accord.

11 M. CARON: C'est pour maintenir le concept
12 de la Confédération, de traiter tous les Canadiens
13 sur le même pied.

14 M. LE COMMISSAIRE BEAUVAIS: Voulez-vous
15 dire par là que toutes les lois devraient être con-
16 formes au Code civil, de façon à ne pas enlever un
17 avantage aux québécois?

18 M. CARON: Dans le moment, non, mais les lois
19 peuvent amener des compensations qui donneront l'équi-
20 valence.

21 M. LE COMMISSAIRE: Oui, et en tant que les
22 lois sur les droits successoraux sont concernées, nous
23 aimerions bien avoir certains exemples, si vous nous
24 soumettez un mémoire final, parce que évidemment nous
25 croyons que cela respecte la communauté de biens.
26 Si quelqu'un décède, dans la province de Québec,
27 disons, pas de contrat de mariage, ou avec un contrat
28 de mariage, on a la communauté de biens, c'est respecté,
29 et vous dites que non. Alors, pour l'illustrer, auriez-
30 vous l'obligeance de citer certains exemples dans votre



mémoire final, pour nous éclairer?

M. CARON: Oui. Je vais demander à M. Duval de dire quelques mots; M. Grondin pourra y ajouter, et M. McLaughlin.

M. GRONDIN: Monsieur le président Carter a demandé tout à l'heure si j'avais des suggestions à faire. Actuellement, nous^{nous}/sommes limités à deux points, c'est-à-dire les relations des familles ou des successions, mais cela va beaucoup plus loin que cela, dans la question d'impôts, c'est que la loi sur la preuve, par exemple, est souvent différente, et peut être appliquée de telle sorte qu'un contribuable de la province de Québec ne puisse faire une preuve qui serait admise dans une autre province, et être ainsi défavorisé. On peut citer des cas qui ont été jugés sous la loi commune dans l'Ontario ou les autres provinces, et vous avez eu bien des causes, mais puisque vous êtes dans le Québec et que vous prétendez que c'est une situation qui n'a pas de sens, alors puisque nous sommes à traiter de droit statutaire - et c'est simplement une suggestion que nous faisons - ne serait-il pas possible, par exemple, de dire que pour les fins fédérales seulement, ou fins d'interprétation, c'est sensé être telle chose, ou laisser au contribuable de la province de Québec le choix de pouvoir adopter un principe qui serait admis sous la loi ou sous le droit commun. Il n'y a rien qui empêcherait cela, et puis cela serait simplement donner une équivalence de ce qui se donne, et si notre loi



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2 nous empêche totalement d'avoir certains bénéfices,
3 très bien, mais le gouvernement fédéral ne peut pas
4 se prêter à ce manège, pour toujours profiter, comme
5 M. le commissaire Boisvert le disait, au cours d'un
6 procès, il y a quinze jours, alors qu'il déclarait
7 qu'il était tout à fait opposé à un système où l'on
8 voulait tout prendre et traiter différemment une
9 personne dans la province de Québec, comme on a été
10 traité dans une autre province.

11 M. McLAUGHLIN: Monsieur le président, tout
12 d'abord je dois dire que je trouve un peu déconcertante
13 la conception à l'effet que le Code civil devrait
14 s'adapter à la législation fiscale fédérale. A mon
15 sens, c'est tout à fait le contraire. Nous avons deux
16 systèmes juridiques au Canada, et il incombe au légis-
17 lateur fédéral, dans le droit statutaire qui s'applique
18 à tous les Canadiens, de l'adapter au système juridi-
19 que dans chaque région du pays. Et voici un exemple
20 pratique. Dans le cas de l'impôt sur les dons, vous
21 savez que dans la province de Québec, les sociétés
22 Saint-Jean-Baptiste citaient l'exemple des dons entre
23 mari et femme, et que seuls les dons dans un contrat
24 pré-nuptial sont permis, et Ottawa a décidé qu'à la
25 suite des articles du Code civil de Québec et de notre
26 régime marital, les dons étaient taxables dans l'année
27 du contrat de mariage et non dans l'année du transfert
28 physique. Or voici une situation qui est absolument
29 discriminatoire. Un contribuable qui a une clause
30 dans son contrat de mariage lui permettant de transfé-



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2 rer \$25,000 à son épouse et fait effectivement ce trans-
3 fert en dedans de l'exemption accordée pour chaque
4 année, il va être taxé à la fin de l'année du mariage
5 et non pas dans les années où le transfert se fait,
6 alors que dans les provinces de droit commun, le
7 transfert se fait et n'est pas taxable. Voilà une
8 situation absolument intolérable, à mon sens.

9 Et voici un deuxième exemple dans le do-
10 maine de l'impôt sur les dons, affectant les transferts
11 entre mari et femme. En 1958, on a introduit une
12 exemption dans la loi de l'impôt sur le revenu permet-
13 tant, une fois dans la vie, le transfert de propriété
14 à un conjoint ne dépassant pas \$10,000. Tout contri-
15 buable marié dans la province de Québec en séparation
16 de biens avant 1958 ne peut prendre avantage de cette
17 situation à cause de la décision de la Cour reconnais-
18 sant notre Droit civil, ce qui, à mon sens, est une
19 situation absolument intolérable et inacceptable.

20 M. LE COMMISSAIRE BEAIVAIS: Maintenant,
21 pour revenir à votre premier exemple, vous dites que
22 la taxe sur les dons doit être payée dans l'année où
23 le contrat de mariage a été passé, même si le trans-
24 fert de la propriété ne se fait pas dans cette année-
25 là?

26 M. McLAUGHLIN: Il y a une décision à l'ef-
27 fet que les transferts physiques faits sur une période
28 d'années sont des dons dans l'année du mariage sont
29 des dons en vertu du Code civil. La Commission d'ap-
30 pel n'avait pas de choix. Il n'est pas question de



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2 discuter la validité du jugement, ils n'avaient pas
3 de choix, mais cela crée une situation intolérable.

4 M. LE COMMISSAIRE BEAUVAIS: C'est M. Bois-
5 vert qui a rendu cette décision-là.

6 M. McLAUGHLIN: Je ne me souviens pas qui
7 a rendu le jugement, mais c'est une cause de la Commis-
8 sion d'appel, Horton vs. The Minister of National
9 Revenue...voilà l'inconvénient d'être bilingue.

10 M. CARON: M. Grondin qui a beaucoup d'ex-
11 périence dans le domaine de la transmission de biens
12 et l'administration de successions lui-même était
13 parfaitement d'accord avec le principe que nous soule-
14 vons ici, et certainement si la Commission veut avoir
15 des exemples additionnels, nous pourrions lui faire un
16 beau recueil de tous les cas qui nous viennent à l'es-
17 prit, parce qu'on se croit sur terrain ferme, là-des-
18 sus, et l'on insiste pour que cette reconnaissance
19 soit faite.

20 M. LE COMMISSAIRE BEAUVAIS: Certainement.

21 M. GRONDIN: Monsieur le président, quand
22 une épouse prend une assurance sur la vie de son mari,
23 dans la province de Québec, il faut absolument qu'elle
24 ait des biens personnels, à moins qu'elle puisse payer
25 les primes, et la province de Québec cependant ne
26 reconnaître pas, pour fins de droits de succession,
27 que les primes soient exemptes, alors que le gouverne-
28 ment fédéral va l'admettre. Et il en résulte une si-
29 tuation où nous sommes obligés de préparer une déclara-
30 tion pour Ottawa, en laissant le montant d'assuran-



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2 ces de côté, comme n'étant pas taxables, et un montant
3 taxable à Québec. Il me semble qu'il y a conflit là,
4 que le gouvernement fédéral ne reconnaît pas le Droit
5 civil de la province de Québec, puisqu'il admet quelque
6 chose qui n'est pas admis en vertu de la loi de
7 Québec. Il me semble qu'il devrait y avoir collabora-
8 tion.

9 M. LE COMMISSAIRE BEAUVAIS: Voulez-vous
10 dire que si j'ai une police d'assurance de \$10,000
11 sur ma vie, mais au nom de ma femme, que ma femme prend
12 une police d'assurance sur ma vie et que je décède,
13 Ottawa va la reconnaître et Québec ne le fera pas?

14 M. GRONDIN: Non, Ottawa va reconnaître la
15 police comme n'étant pas taxable, mais Québec va
16 taxer, parce que si votre épouse n'avait pas les moyens
17 personnels de la payer, comme vous disiez que le gou-
18 vernement fédéral reconnaît quelque chose qui, en vertu
19 du droit civil de la province de Québec, n'est pas ad-
20 missible.

21 M. LE COMMISSAIRE BEAUVAIS: Expliquez-moi
22 donc comment cela peut être au détriment du contribu-
23 ble du Québec, parce que vous voulez dire que quel-
24 qu'un de l'Ontario bénéficie de quelque chose dont le
25 québécois ne bénéficie pas?

26 M. GRONDIN: Ce n'est pas au détriment du
27 contribuable du Québec.

28 M. McLAUGHLIN: On conseille même au contri-
29 buable de le faire, mais c'est tout de même aller à
30 l'encontre de leur propre droit, et c'est faire quel-



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2 chose qui va à l'encontre de la loi, au point de vue
3 juridique.

4 COMMISSIONER GRANT: May I make an observa-
5 tion? The Act as it is now framed and as it is
6 administered gives a credit of 50 per cent of the
7 amount of the tax which the federal government would
8 have collected on those assets which are situated in
9 a province which is still in the succession duties
10 field. Now, in that respect they are treating all
11 provinces the same, they are not telling any province
12 which is still in the succession duties field what it
13 should do with respect to its succession duties, what
14 exemptions they should have, what they should collect.
15 Perhaps it is by ignorance, but it seems to me to be
16 a "hands off" policy and it could be, I think, one
17 that has the elements of fairness.

18 M. CARON: La pensée qui me vient à l'idée,
19 M. Grant, c'est que la loi sur les droits successo-
20 raux arrive, disons, je ne sais pas à partir de quelle
21 année, mais certainement au cours des trente ou qua-
22 rante dernières années et va dire à des gens comment
23 leur succession va être composée, alors que leur propre
24 loi, depuis 250 ans, a déterminé comment cette succes-
25 sion-là se fait. Alors, ils arrivent après pour dire
26 à des gens "bien, voici, votre Code vous dit que la
27 succession est composée de telle manière, mais nous
28 autres, nous prétendons que c'est de telle manière.
29 Alors, on expose une conception différente de celle
30 que le Code a déterminée quant à la succession. Voilà



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2 un premier embêtement pour ces gens-là qui sont régis
3 par certaines lois. Il y a deux successions: une
4 telle qu'établie par le gouvernement fédéral, et une
5 autre établie depuis 250 ou 300 ans par leur Code.
6 C'est déjà un embêtement, et à la suite de dispositions
7 différentes, ces gens-là sont obligés de se conformer
8 aux exigences de leur province parce qu'ils payent à
9 leur province et que la succession est déterminée
10 d'après le Code civil, et au gouvernement fédéral lui-
11 même qui détermine une succession à sa manière.

12 M. LE COMMISSAIRE BEAUVAIS: Est-ce que la
13 loi sur les successions de la province d'Ontario est
14 différente de celle d'Ottawa, du gouvernement fédéral?

15 M. DUVAL: Pas trop.

16 M. McLAUGHLIN: Non, au gouvernement fédéral
17 vous avez un impôt sur la transmission des biens après
18 décès, et l'impôt sur les droits successoraux est plus
19 semblable à celui de la province de Québec, mais j'ai-
20 merais revenir à la question qui a été posée par un
21 des commissaires et à ce que j'ai dit tout à l'heure,
22 que je trouve absolument déconcertant d'entendre l'é-
23 noncé que le Code civil doit s'adapter aux lois fis-
24 cales. A mon sens, c'est le contraire, et le légis-
25 lateur fédéral, dans un Etat fédératif comme le nôtre,
26 avec un système juridique différent, doit faire tous
27 les efforts possibles pour s'assurer que les consé-
28 quences fiscales du droit statutaire vont respecter
29 l'équité et la justice, nonobstant la différence des
30 systèmes juridiques.



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2 M. CARON: On reviendra sur cette question
3 dans un de nos principes tout à l'heure. On pourrait
4 peut-être reprendre la discussion à ce moment-là,
5 parce que cette question-là est traitée spécifiquement
6 dans notre mémoire, et on a des remèdes.

7 M. LE COMMISSAIRE BEAUVAIS: Les droits
8 successoraux?

9 M. CARON: Oui, ^{on}est spécifiques là-dessus.

10 M. LE COMMISSAIRE BEAUVAIS: Très bien, on
11 peut continuer.

12 M. CARON: Troisième principe: choix des
13 moyens d'imposition.

14 Dans l'optique du mandat de la Commission
15 Carter, il faut envisager une revision du système des
16 impôts en tenant compte du montant total du revenu
17 que le gouvernement fédéral perçoit actuellement.

18 Dans la suite de cet exposé, nous tiendrons
19 compte de cette prémisse, de façon à ce que toute dimi-
20 nution d'impôts qui sera proposée soit compensée par
21 une augmentation d'impôts dans d'autres domaines.

22 Ceci étant dit, nous formulons un autre
23 principe d'importance majeure: "La Chambre croit qu'il
24 y aurait lieu de mettre davantage l'accent sur les
25 impôts à la consommation (indirecte) que sur les
26 impôts à la production (directs)".

27 Nous verrons plus loin, en examinant chacun
28 de ces impôts, comment ce principe peut s'appliquer.

29 Impôts directs - Impôts indirects

30 A. Impôts directs



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2 Reprenons chacun des impôts existants en
3 vertu des deux grandes divisions: impôts directs et
4 impôts indirects. Sous la rubrique impôts directs,
5 examinons les impôts sur le revenu des particuliers
6 et les impôts sur le revenu des corporations.

7 1) Impôts sur le revenu des particuliers

8 Dans les impôts sur le revenu des parti-
9 culiers, considérons deux aspects: l'aspect équité et
10 l'aspect incidence économique.

11 a) L'aspect équité:

12 4e principe: le minimum vital

13 En ce qui concerne les impôts sur le revenu
14 des particuliers, la Chambre estime qu'une saine poli-
15 tique fiscale doit reposer sur le principe suivant:

16 "L'impôt sur le revenu des particuliers ne
17 doit pas frapper le revenu nécessaire à la subsistance
18 du contribuable et de sa famille".

19 Pour atteindre cet objectif, la Chambre
20 recommande des exemptions de base en vue de protéger
21 le minimum vital.

22 M. LE COMMISSAIRE BEAUVAIS: Vous n'avez
23 pas de suggestions à faire là-dessus, M. Caron, soit
24 au sujet du minimum vital?

25 M. CARON: Cela demande une étude économique
26 pour l'établir.

27 M. LE COMMISSAIRE BEAUVAIS: Pensez-vous
28 pouvoir toucher ce point-là dans votre mémoire final?

29 M. CARON: Je ne pense pas qu'on puisse
30 faire des études économiques que la Commission a les



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2 moyens de se permettre, mais seulement on peut affirmer
3 que dans le passé le régime des exemptions n'a pas
4 toujours respecté ce que nous considérons être le
5 minimum vital, mais de l'établir. Je pense que le
6 problème est fort plus complexe et d'ailleurs devrait
7 peut-être osciller avec un indice quelconque.

8 On a des mémoires que la Chambre a présen-
9 tés en 1947 sur cette question, qui sont fort élaborés,
10 et puis on pourra vous faire tenir copies de ces mé-
11 moires qui traitent avec force détail de cette ques-
12 tion. Cela date de 1947, mais me permet également de
13 dire qu'il n'y a rien de nouveau sous le soleil,
14 puisqu'on en parle encore, en 1963.

15 M. LE COMMISSAIRE BEAUVAIS: Evidemment,
16 il ne faut pas considérer les exemptions actuelles
17 comme étant suffisantes pour assurer la subsistance
18 d'une famille, parce qu'il faut remarquer que le
19 montant de \$2000 est le même qui était accordé il y
20 a 20 ans, alors que les conditions ont bien changé.

21 M. CARON: Comme vous le savez, monsieur
22 le président, la famille est la cellule la plus im-
23 portante chez les Canadiens français, et elle est
24 considérable cette cellule-là. C'est pour cela qu'on
25 considère que le minimum vital est important au sujet
26 de l'impôt sur le revenu.

27 M. LE COMMISSAIRE BEAUVAIS: D'accord.

28 THE CHAIRMAN: Mr. President, I think we are
29 going to get guidance, as you say, Mr. Caron, from the
30 Province of Quebec. But on this matter of exemptions,



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2 it would seem to me that this study would be a very
3 difficult matter indeed, and certainly assessments of
4 levels throughout this land vary considerably and I am
5 very uncertain whether that is a realistic test for
6 income tax.

7 It is certainly something to be considered,
8 of course.

9 MR. CARON: Yes, except that it concerns
10 the bulk of the population. Perhaps the others would
11 be better off. Si vous avez les grandes régions de
12 population comme, disons, Montréal, Toronto, et peut-
13 être Vancouver et "innipeg, vous avez peut-être établi
14 à ce moment-là, des prémisses qui donnent aux autres
15 même plus de confort que requis, mais au moins le mini-
16 mum vital n'est pas le minimum dans ces endroits où
17 la population est très forte, autrement il y a un pro-
18 blème très difficile à trancer, car il y a variance
19 à travers le Canada.

20 M. DUVAL: Il y a même variance dans le coût
21 de la vie partout au Canada; ceux qui paient de l'im-
22 pôt, ce sont les salariés, qui ont cependant un cout
23 de la vie, un minimum vital normal, c'est-à-dire quand
24 je parle du minimum, du travailleur qui ne paie pas
25 d'impôt, cela ne m'affecte pas.

26 M. LE COMMISSAIRE BEAUVAIS: D'accord.

27 M. DUVAL: Nous admettons que cela a été
28 un des problèmes les plus difficiles à résoudre, que
29 nous ayons eu à étudier, parce qu'on se rendait compte
30 de la position dans laquelle les commissaires se trou-



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2 vent. Il faut maintenir le revenu. Or, la plus
3 grande difficulté que nous rencontrions dans ce mini-
4 mum vital, c'est que si l'on s'étend trop, il ne reste
5 plus de revenu. C'est la plus grande difficulté qui
6 existe là-dedans. Le principe ne change rien, mais
7 l'économique est très, très difficile.

8 M. LE COMMISSAIRE BEAUVAIS: Parfaitement,
9 parce que si vous réduisez l'exemption, cela diminue
10 le revenu considérablement, très rapidement, mais cela
11 ne veut pas dire que nous ne considérons pas que cette
12 question n'est pas absolument essentielle. Nous le
13 croyons, et vous pouvez être assurés que nous allons
14 donner toute notre attention à ce problème-là.

15 M. CARON: Le Bureau fédéral de la statisti-
16 que, je crois, publie des données qui peuvent certaine-
17 ment être très utiles de ce côté-là...

18 M. LE COMMISSAIRE BEAUVAIS: Pour déterminer
19 quel est le minimum vital?

20 M. CARON: qui ne semble pas avoir été con-
21 sidéré dans le passé.

22 M. McLAUGHLIN: Monsieur le président, j'ai-
23 merais signaler que toutes nos recommandations, et il
24 ne faut pas l'oublier, sont faites dans le contexte
25 d'une plus grande emphase sur les impôts à la consomma-
26 tion plutôt qu'à la production. Dans ce contexte-là,
27 naturellement, si le petit salarié, la personne à re-
28 venu modeste doit subir des taxes à la consommation
29 plus élevées, à cause de ce changement d'emphase entre
30 les deux, il y aurait lieu, évidemment, d'augmenter



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2 les exemptions personnelles.

3 M. LE COMMISSAIRE BEAUVAIS: Je comprends.

4 M. McLAUGHLIN: Il faut se rappeler que
5 c'est tout le contexte de notre mémoire, un transfert,
6 c'est-à-dire pas un transfert complet, évidemment,
7 les mêmes considérants, mais une emphase à la consomma-
8 tion plutôt qu'à la production.

9 M. LE COMMISSAIRE BEAUVAIS: D'ailleurs,
10 vous en parlez un peu plus loin dans votre mémoire,
11 quand vous parlez de la taxe de vente, nous allons
12 toucher ce point-là, qui est très essentiel.

13 M. CARON: 5e principe: au-dessus du minimum
14 vital.

15 1. Au-dessus du minimum vital, la Chambre
16 a examiné, entre autres, quatre hypothèses possibles:

17 Maintenir un taux gradué;

18 avoir un taux gradué avec un taux maximum
19 de 50 p. 100;

20 avoir un seul taux avec une augmentation
21 des exemptions;

22 avoir deux taux, un qui serait minimum pour
23 rejoindre le minimum vital; l'autre qui serait un
24 taux moyen.

25 2. La Chambre croit qu'il faut maintenir
26 un taux gradué parce que la graduation fait reposer
27 d'une façon plus équitable le fardeau des impôts.

28 Mais il ne semble pas pas équitable qu'un
29 contribuable soit obligé de verser en impôts plus de
30 50 p. 100 de son revenu. Une telle mesure décourage



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2 l'initiative.

3 M. LE COMMISSAIRE BEAUVAIS: Evidemment,
4 lorsque vous dites "plus de 50 p. 100 de son revenu",
5 vous voulez probablement dire un taux gradué, avec un
6 taux maximum de 50 p. 100, parce que pour payer 50 p.
7 100 de son revenu, il faut que quelqu'un gagne plus de
8 \$100,000. Ce sont de très rares cas, je crois, car
9 pas plus de 500 ou 525 personnes au Canada ont un
10 revenu imposable de plus de \$100,000. Alors, n'y
11 aurait-il pas lieu de faire une correction et dire
12 un taux gradué, un taux maximum de 50 p. 100.

13 M. CARON: Oui, sur la dernière tranche de
14 revenu, arrêter la graduation à 50 p. 100.

15 M. LE COMMISSAIRE BEAUVAIS: Pourquoi 50 p.
16 100? Avez-vous une raison spéciale?

17 M. McLAUGHLIN: Voici, monsieur le président.
18 Je m'attendais à cette question. C'est purement arbi-
19 traire. Nous n'avons pas fait d'étude économique.
20 Le président de la Chambre vous a mentionné que nous
21 n'avions pas les facilités de faire une telle étude,
22 mais nous croyons - c'est peut-être psychologique -
23 c'est bien arbitraire, mais lorsque vous atteignez la
24 situation où chaque dollar marginal de revenu doit être
25 partagé avec le gouvernement, je pense que la relation
26 de sociétaire à sociétaire est allée assez loin.

27 M. LE COMMISSAIRE BEAUVAIS: Quand vous dites
28 que vous avez examiné quatre hypothèses possibles,
29 vous en venez à la conclusion "qu'il faut maintenir un
30 taux gradué" et "avoir un taux gradué avec un taux



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2 maximum de 50 p. 100", c'est ça?

3 M. McLAUGHLIN: Absolument.

4 COMMISSIONER PERRY: I think you probably
5 have some views where that 50 per cent should apply,
6 because if one looks back to the schedule which was
7 in effect in wartime, my recollection is that it
8 applies at about \$5,000, and I assume that this is
9 what you had in mind?

10 M. McLAUGHLIN: Nous avons pensé à cet as-
11 pect mais n'avons pas voulu faire de recommandation
12 précise, et ce encore une fois à cause de la carence
13 de recherches, dans notre organisation. Nous avons
14 préféré à la Commission le soin de recommander la
15 graduation qu'elle jugera à propos, compte tenu de la
16 situation. Mais c'est sûr que nous ne recommandons
17 pas, évidemment, que le 50 p. 100 atteigne les revenus
18 trop moyens ou minimes; c'est sûr également qu'on ne
19 recommande pas qu'il atteigne \$10,000, car on passe-
20 rait de la poêle au feu.

21 M. DUVAL: Au point de vue pratique aussi,
22 sans généraliser, seulement en pratique, disons que
23 lorsque vous dites qu'un contribuable va payer plus
24 de 50 p. 100 pour tout revenu dépassant tel montant,
25 son initiative cesse, au point de vue pratique, on le
26 sent. Maintenant, donner un des cas précis! Si la
27 personne dit "je peux faire tant dans une année et
28 répartir ça en plusieurs années, au lieu de développer
29 tout dans un an, petit train va loin", parce qu'il
30 dit "quand ça dépasse pas 50 p. 100, ça va; après ça,



je veux plus marcher", ça arrêtel'initiative privée.

M. CARON: b) l'aspect incidence économique
6e et 7e principes;

La Chambre reconnaît que parmi les objectifs économiques, l'un des plus importants est celui de la formation de capitaux canadiens. Pour atteindre cet objectif, une action peut être entreprise au niveau des dividendes et du profit de capital.

1) pour les dividendes

Dans ce domaine, la Chambre énonce deux possibilités:

a) On peut réduire considérablement les impositions entre les mains d'une personne résidant au Canada pour les dividendes provenant des compagnies canadiennes imposables. Ceci aurait comme effet:

- d'encourager les placements dans les entreprises canadiennes;

b) On peut enlever toute imposition sur les dividendes provenant des compagnies canadiennes imposables pour les personnes résidant au Canada. Ceci aurait comme effet de simplifier considérablement l'application de la loi et de plus de décourager l'évasion fiscale. mais risquerait d'être inéquitable pour certaines catégories de contribuables. Il faudrait donc penser à faire des corrections dans d'autres secteurs de l'imposition.

2) pour les profits de capital

Le Chambre croit que l'on doit continuer à ne pas taxer les profits de capital.



1
2 M. LE COMMISSAIRE BEAUVAIS: Dans l'alinéa
3 (a) du premier paragraphe, vous voulez probablement
4 dire augmenter le 20 p. 100 de crédit de taxes qui
5 est donné actuellement, comme moyen d'inciter les
6 Canadiens à investir dans l'équité de nos compagnies
7 canadiennes?

8 M. CARON: Yes, cela serait d'augmenter la
9 formule présente ou d'en trouver une autre qui arri-
10 verait aux même fins.

11 M. LE COMMISSAIRE BEAUVAIS: Et maintenant,
12 vous dites "ceci risquerait d'être inéquitable pour
13 certaines catégories de contribuables"?

14 M. CARON: Il faut toujours se poser le
15 problème que celui qui aurait des revenus uniquement
16 en dividendes de corporations, ou celui, disons, qui
17 aurait un revenu de propriétés, qui lui assureraient aussi
18 des placements, si l'exemption des dividendes était...
19 d'ailleurs celui qui a des revenus d'autres sources,
20 mais qui a aussi des placements, pourrait se sentir
21 maltraité vis-à-vis le fisc. Il faut aussi penser
22 à ceux qui payent sur leur salaire; c'est pour ça
23 qu'on a dit qu'il y avait tellement de correctifs à
24 apporter pour en arriver à une solution.

25 M. LE COMMISSAIRE BEAUVAIS: Il faut tout
26 de même admettre que l'individu qui reçoit un divi-
27 dende ne reçoit qu'une partie du profit qui a été
28 réalisé par la corporation, qui a déjà été taxé, dans
29 la plupart des cas, à 52 p. 100?

30 M. CARON: C'est notre concept; il y a



1
2 double taxation.

3 M. LE COMMISSAIRE BEAUVAIS: D'accord.

4 M. McLAUGHLIN: Monsieur le président, deux
5 objectifs nous ont guidés dans la formulation de cette
6 recommandation. Premièrement, un objectif d'ordre
7 économique et, deuxièmement, un objectif d'ordre tech-
8 nique.

9 L'objectif d'ordre économique est celui
10 reconnaissant que l'industrie canadienne est, en
11 grande partie, la propriété des étrangers. Nous
12 croyons qu'il est extrêmement désirable, au Canada,
13 d'encourager l'accumulation des économies, et la for-
14 mation de capitaux, et nous sommes d'avis que si nous
15 avions une exemption complète de dividendes - et là,
16 je ne parle peut-être pas au nom de la Chambre de
17 Commerce, mais j'exprime une opinion personnelle -
18 nous croyons que nous permettrions l'accumulation
19 d'épargnes entre les mains des Canadiens sur la for-
20 mation de capitaux, et la canalisation des épargnes
21 et des capitaux vers des objectifs économiques désira-
22 bles, ou du moins une plus grande participation des
23 Canadiens dans l'industrie canadienne.

24 Notre deuxième objectif d'ordre technique,
25 et je suis sûr que vous serez d'accord avec nous,
26 c'est celui des complexités de la loi de l'impôt sur
27 le revenu des particuliers, et particulièrement celui
28 de la double taxation des profits des corporations.

29 Nous pourrions faire une liste de deux ou trois pages
30 des dispositions de la loi relativement à cette double



1
2 imposition, et nous croyons qu'une telle recommanda-
3 tion, si acceptée, éliminerait les dispositions les
4 plus complexes de la loi de l'impôt sur le revenu,
5 de sorte que tout ce qui a trait au surplus non dis-
6 tribué, ou dividend stripping, comme on dit en anglais
7 serait réglé.

8 Nous avons deux objectifs: un d'ordre éco-
9 nomique et l'autre d'ordre technique.

10 M. LE COMMISSAIRE BEAUVAIS: Voici ce que
11 vous venez de dire, je crois, que la suggestion men-
12 tionnée dans l'alinéa (b) pourrait l'éviter, mais ne
13 croyez-vous pas que si la taxe des profits était éli-
14 minée complètement vous atteindriez votre but et que
15 vous feriez disparaître tous les problèmes connexes
16 à l'article mentionnée?

17 M. McLAUGHLIN: Monsieur le président, je
18 m'excuse, mais je suis personnellement convaincu que
19 nous éliminerions tous ces problèmes si les dividendes
20 n'étaient pas taxés.

21 M. LE COMMISSAIRE BEAUVAIS: C'est un peu
22 discriminatoire envers les autres qui reçoivent un
23 revenu de propriétés ou d'intérêt sur obligations.
24 Dans les obligations, évidemment, c'est un moyen né-
25 cessaire de financer nos entreprises, et je dirais que
26 personne, évidemment, n'achèterait d'obligations même
27 si les revenus sont taxés au taux de 50 p. 100, comme
28 vous le mentionnez dans votre mémoire, alors que s'ils
29 acquièrent une équité, ils ne payent pas d'impôt du
30 tout. Est-ce que cela ne serait pas un peu draconien?



1
2 M. McLAUGHLIN: Nous avons reconnu cela, et
3 cela nous inquiète un peu, mais nous nous demandons
4 si dans le contexte actuel il n'est pas plus pressant
5 de penser au bien-être de la collectivité plutôt
6 qu'avoir un souci d'équité dans certains cas d'ex-
7 ception.

8 M. LE COMMISSAIRE BEAUVAIS: Evidemment,
9 personnellement je partage votre opinion quant à
10 l'augmentation d'épargne qui est investie dans l'é-
11 quité, mais je ne sais pas si le fait d'avoir placé
12 20 p. 100 de crédit de taxe, cela était probablement
13 pour cela, pour éviter la double taxation, jusque dans
14 une certaine mesure, mais je ne sais pas quels ont été
15 les résultats, en tant que cela a encouragé les inves-
16 tisseurs canadiens à placer dans l'équité de nos entre-
17 prises canadiennes. Evidemment, si nous enlevons la
18 taxe sur les dividendes, cela sera sûrement un at-
19 trait considérable pour les investisseurs canadiens.

20 M. McLAUGHLIN: Maintenant, il y a quelque
21 chose qu'il ne faut pas perdre de vue. Là, je parle
22 un peu en technicien, c'est que la simplicité des
23 lois est quelque chose d'extrêmement désirable, et
24 nous éliminerions toutes les dispositions les plus
25 complexes de la loi, particulièrement sur la double
26 taxation des individus. Evidemment, nous suggérons
27 l'impôt sur les dividendes payés aux non-résidents,
28 mais je crois que nous pourrions contrôler les paye-
29 ments de dividendes par des moyens détournés aux non-
30 résidents en se servant des articles 81 et 82, con-



cernant les dividendes, ainsi que l'article 106 pour ce qui est de l'impôt sur les non-résidents.

M. CAMIRAND: Me serait-il permis d'ajouter un mot à ce sujet-là? M. McLaughlin a bien énoncé que ce qu'il vient de dire était son point de vue, pour bien indiquer que ce point de vue n'était pas nécessairement partagé par tout le monde.

En effet, nous avons reconnu que le problème était extrêmement complexe. La première des questions qui nous a été posées, qui se posaient à nous, c'était de savoir si réellement il y avait double taxation, parce que certains ont avancé que la taxation des corporations n'était pas réellement une taxation ou un impôt direct, parce que cet impôt pouvait être répartie, dans une plus ou moins grande partie, sur le consommateur ou sur le salarié. Par contre, lorsqu'on regarde la petite entreprise, on s'aperçoit que l'impôt de la corporation d'une petite entreprise, soit personnelle ou individuelle, c'est un impôt direct à ce moment-là, parce que la facilité de répartir le fardeau de l'impôt sur le consommateur se fait plus difficilement que dans la grande entreprise. Il nous semble que ce soit le contraire pour la grande entreprise et qu'elle puisse répartir relativement facilement, du moins dans une certaine mesure, le fardeau d'impôt sur le consommateur, surtout lorsqu'il s'agit de monopoles ou de ^{très} grandes entreprises, qui sont indispensables.

M. LE COMMISSAIRE BEAUVAIS: Il faut tout



1
2 de même admettre que le prix d'un produit est égale-
3 ment contrôlé par la concurrence?

4 M. CAMIRAND: Quand il y en a, oui.

5 M. LE COMMISSAIRE BEAUVAIS: Dans ce cas-là,
6 on ne peut pas passer l'augmentation aussi librement,
7 aussi facilement au consommateur?

8 M. CAMIRAND: Non, mais tout de même, ^à la
9 longue, l'entreprise étant un organisme intermédiaire
10 entre le consommateur et le producteur, ou l'action-
11 naire, si vous voulez, à la longue le rendement
12 de l'entreprise devrait s'établir à un certain niveau,
13 devrait donner un rendement égal ou plutôt normal.
14 C'est pour cela, en effet, que la question est très
15 complexe.

16 M. CARON: Mais vous avez nos recommanda-
17 tions, et je pense qu'elles démontrent notre désir de
18 voir quelque chose se faire de ce côté-là, pour encou-
19 rager les placements chez les résidents du Canada, et
20 puis ensuite de simplifier la loi, et là, nécessaire-
21 ment, c'est une affaire, c'est à vous de décider,
22 mais nous présentons deux alternatives, et dans un
23 cas nous indiquons qu'on doit considérer aussi la si-
24 tuation des autres contribuables, parce qu'il doit
25 nécessairement y avoir équité, nous sommes d'avis que
26 le système doit être équitable.

27 M. McLAUGHLIN: Un dernier point, monsieur
28 le président. En homme pratique, vous devez être
29 intéressé à savoir combien cela va vous coûter.
30 Cela va coûter \$45 millions au gouvernement, l'exemp-



tion de dividendes dans les mains des Canadiens.

M. LE COMMISSAIRE BEAUVAIS: Sur ce point-là, suggérez-vous que le 15 p. 100 retenu à la source en tant que les dividendes payés aux étrangers sont concernés soit éliminé?

M. McLAUGHLIN: Ah! non.

M. CARON: C'est seulement pour les résidents du Canada.

M. McLAUGHLIN: Strictement pour encourager les résidents à canaliser leurs épargnes...

M. CARON:..dans les entreprises canadiennes, ou reprendre la propriété des entreprises canadiennes.

M. LE COMMISSAIRE BEAUVAIS: Et maintenant sur ce dernier point, croyez-vous que les profits de capitaux devraient être taxés?

M. CARON: Si vous êtes capable d'en établir une définition, je pense que cela aiderait pas mal tout le monde, parce que vous savez que les gens sont fort perplexes à ce sujet. Je pense que ce n'est pas bien qu'un système d'impôt laisse les gens dans le doute à l'égard de ces transactions, Je crois que l'on devrait apporter des éclaircissements de ce côté-là, de façon à ce que les gens sachent, quand ils s'engagent dans une transaction, si elle est imposable ou non. Il faudrait aussi penser à ceux qui sont obligés de donner une opinion sur ces transactions et qui sont obligés de faire toutes sortes de gymnastiques pour exprimer des opinions. J'espère



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2 que vous allez aider le comptable et l'avocat, de ce
3 côté-là.

4 M. DUVAL: On n'a pas discuté cette question
5 de définition, mais je préfère ne pas en avoir, car
6 pour se protéger il va falloir que le Ministère en
7 donne tellement que la première chose dont on va s'a-
8 percevoir, c'est que le profit de capital va dispa-
9 raître.

10 M. CARON: C'est-à-dire qu'il va être taxé.

11 M. DUVAL: Il va être tellement défini, il
12 y aura tellement de restrictions, qu'il peut rester
13 éloigné, et à ce moment-là, j'aime mieux que ce soit
14 le juge qui décide.

15 M. CARON: Impôts sur les corporations.

16 1er problème: Taux uniforme - Se principe

17 a) selon la Chambre, l'impôt sur les cor-
18 porations est trop élevé. Il y a lieu d'amorcer une
19 réduction des impôts.

20 A ce stade, il faut diviser les entreprises
21 en deux groupes:

22 - les entreprises en situation de monopole
23 ou d'oligopole,

24 - les entreprises en situation de concur-
25 rence parfaite.

26 Prenons par hypothèse un taux uniforme.
27 Dans le cas de monopole ou d'oligopole, le transfert
28 de l'impôt aux consommateurs se fera dans une large
29 mesure.

30 Dans le cas de concurrence parfaite, le



1
2 transfert de l'impôt aux consommateurs ne se fera que
3 partiellement. Le taux uniforme, qui n'apporte pas
4 de complication administrative, défavorisera les
5 entreprises en situation de concurrence parfaite.

6 Dans la mesure où il est passé aux consom-
7 mateurs, cet impôt est une taxe de vente déguisée.

8 C'est un impôt mauvais parce qu'il frappe
9 les consommateurs sur tous les produits indistincte-
10 ment; par exemple, les aliments. Il pénalise les
11 producteurs efficaces; il frappe les produits d'une
12 surcharge qui nuit à l'exportation.

13 b) La Chambre favorise tous les stimulants
14 qui peuvent aider l'industrie à mieux se porter.

15 2e problème: Petites et moyennes entreprises

16 Un taux d'imposition trop élevé ne permet
17 pas aux petites et aux moyennes entreprises une accu-
18 mulation de capital pour leur permettre de concurren-
19 cer les grandes entreprises.

20 La Chambre croit qu'il est très important
21 de permettre aux petites et moyennes entreprises d'ac-
22 cumuler du capital.

23 Dans ce sens, le taux uniforme pose un
24 problème. Il faut trouver une formule pour conserver
25 aux petites et aux moyennes entreprises les privilèges
26 déjà acquis.

27 M. LE COMMISSAIRE BEAUVAIS: Alors, cela
28 veut dire que la Chambre serait en faveur d'une réduc-
29 tion du taux d'impôt sur le profit des corporations?

30 M. CARON: Oui, nous serions en faveur que



1
2 notre loi sur l'impôt contienne des stimulants pour
3 encourager l'activité industrielle, l'expansion indus-
4 trielle.

5 M. LE COMMISSAIRE BEAUVAIS: Est-ce que vous
6 croyez que le fait de taxer les premiers \$35,000 à
7 un taux réduit est suffisant pour aider la petite
8 entreprise?

9 M. CARON: On ne croit pas que cela aide
10 complètement la petite et la moyenne entreprise.

11 M. LE COMMISSAIRE BEAUVAIS: Vous prétendez
12 que cela devrait être conservé?

13 M. CARON: Cela devrait être conservé pour
14 stimuler l'accumulation de capitaux, mais on se demande
15 si c'est suffisant.

16 M. McLAUGHLIN: Monsieur le président, dans
17 la discussion de cette recommandation-là, nous en
18 sommes venus à la conclusion qu'il y aurait de grands
19 avantages à établir un taux uniforme sur les corpora-
20 tions. Et là encore je parle comme un technicien,
21 cela nous permettrait d'éliminer toutes les disposi-
22 tions de la loi qui traitent des compagnies associées,
23 qui sont devenues extrêmement complexes. D'un autre
24 côté, nous recommandons qu'il est impossible d'enlever
25 les bénéfices qui existent actuellement aux petites
26 entreprises, et nous n'avons pas fait cette recomman-
27 dation-là. Mais une solution possible que nous avons
28 envisagée, c'est celle de permettre à toute corpora-
29 tion de faire élection d'être taxée soit au taux
30 corporatif, soit au taux personnel, et ce surtout



1
2 dans le cas de la petite entreprise. A ce moment-là,
3 cela s'agrafe, pour ainsi dire, à notre première re-
4 commandation, les dividendes étant exempts, et il
5 importe peu que ce soit au taux corporatif ou indivi-
6 duel, parce qu'elle le paye une fois.

7 M. LE COMMISSAIRE BEAUVAIS: Mais cela
8 n'est pas compris dans votre mémoire?

9 M. McLAUGHLIN: Non, mais je voulais men-
10 tionner le processus de discussion qui nous a amenés
11 à mentionner que nous voulions garder le privilège
12 intact...

13 M. LE COMMISSAIRE BEAUVAIS: Vous suggérez
14 une potion d'être taxé comme corporation...

15 M. McLAUGHLIN: Oui, ou associé, ou indivi-
16 du. Nous avons voulu vous laisser le choix d'examiner
17 ce problème et d'en arriver à une conclusion.

18 COMMISSIONER PERRY: There are two or three
19 uses of words in your brief, which to my mind imply
20 one rate of corporation tax, that is if you abandon
21 the reduced rates. First of all you use the expres-
22 sion a standard rate, and later on you refer to a
23 single rate. I am misreading this apparently. You
24 do intend that the two rates be retained?

25 MR. CARON: Oh! yes, we bring forward the
26 advantage of a uniform rate, but also de disadvantages.
27 Nous amenons les désavantages pour prouver que ce
28 n'est pas la formule idéale dans les circonstances.
29 C'est l'argument par l'impossible qu'on emploie dans
30 les conditions.



1
2 M. McLAUGHLIN: Est-ce que je pourrais
3 ajouter aussi qu'il est arrivé au gouvernement de
4 réaliser que le contexte de notre recommandation indi-
5 quait que nous désirions un taux uniforme, et je pense
6 que c'est exact. Je ne veux pas engager la responsa-
7 bilité de la Chambre outre mesure, mais je pense qu'il
8 est exact que nous souhaitons avoir un taux uniforme,
9 s'il est possible de réaliser cela, avec le maintien
10 des privilèges de la petite entreprise, et une possi-
11 bilité que nous avons envisagée, c'est de permettre à
12 toute corporation de faire élection de payer l'impôt
13 au taux individuel, selon le cas.

14 COMMISSIONER PERRY: To be facetious, you
15 are saying you would want a standard rate if it were
16 at 21 per cent?

17 M. McLAUGHLIN: Nous n'espérons pas autant,
18 monsieur le président.

19 M. CARON: 3) Impôts sur les biens transmis
20 par décès - 9e principe.

21 La Chambre recommande de supprimer l'impôt
22 fédéral sur les biens transmis au décès et sur les
23 dons.

24 Cet impôt, en plus de produire très peu
25 de revenus pour le gouvernement fédéral, se trouve à
26 affecter particulièrement le droit de propriété plus
27 qu'aucun autre impôt. De ce fait, les impôts sur les
28 biens transmis au décès et les dons devraient relever
29 des provinces.

30 M. LE COMMISSAIRE BEAUVAIS: Pourquoi? Ne



1
2 croyez-vous pas que si le gouvernement fédéral aban-
3 donnait les droits successoraux immédiatement, les
4 provinces prendraient ce droit de taxation qu'elles
5 ont déjà, d'ailleurs, mais je veux dire qu'elles aug-
6 menteraient leurs droits successoraux d'autant?

7 M. CARON: C'est une question de juridiction
8 pour nous, ce n'est pas une question du montant de
9 droits qui est payé.

10 M. LE COMMISSAIRE BEAUVAIS: Mais il faut
11 tout de même regarder la situation comme elle est...

12 M. CARON: On croit que le gouvernement
13 fédéral n'est pas dans son domaine quand il touche
14 aux droits successoraux, que c'est d'essence provin-
15 ciale et que cela devrait le demeurer.

16 M. LE COMMISSAIRE BEAUVAIS: Vous voulez
17 dire du point de vue historique, n'est-ce pas?

18 M. CARON: Nous parlons du point de vue
19 principe et du point de vue juridiction qui inter-
20 vient.

21 M. LE COMMISSAIRE BEAUVAIS: Mais est-ce
22 que vous prétendez que le gouvernement fédéral n'a
23 pas le droit de taxer les successions? Qu'il n'a
24 pas le droit d'imposer une taxe dans ce domaine?

25 M. CARON: On croit que dans le concept
26 de l'Acte de l'Amérique du nord britannique ces droits
27 appartenaient aux provinces et devraient retourner
28 aux provinces, et exclusivement aux provinces, puis-
29 que c'est spécifié dans l'Acte.

30 M. McLAUGHLIN: Voici, monsieur le prési-



1
2 dent. Au cours des discussions relatives à cette
3 recommandation, nous avons toujours reconnu la cons-
4 titutionnalité du gouvernement fédéral dans le do-
5 maine des droits successoraux. Il n'est pas du tout
6 question de cela. Ce dont il est question, c'est le
7 conflit entre le système juridique de la province de
8 Québec et celui des autres provinces. Notre opinion,
9 c'est que ces taxes-là sont trop près, sont trop en
10 relation des droits civils et des droits de propriété
11 qui relèvent des provinces, et ces impôts-là ne de-
12 vraient pas être utilisés par le gouvernement fédéral.
13 Cela semble être à peu près l'idée.

14 Nous avons examiné toutes les possibilités
15 pour reconcilier les deux systèmes juridiques, plus
16 particulièrement dans le domaine des droits successo-
17 raux, et nous en sommes venus à la conclusion que
18 ces impôts-là devraient être prélevés uniquement par
19 le gouvernement provincial, et nous sommes en bonne
20 compagnie en cela, car nous ne faisons qu'appuyer
21 les exigences officielles de la province de Québec.

22 M. LE COMMISSAIRE BEAUVAIS: C'est probable-
23 ment pour cette raison-là que vous ne suggérez aucun
24 amendement à la loi sur les droits successoraux?

25 M. CARON: C'est la majeure.

26 M. McLAUGHLIN: C'est pour cette raison-là.

27 M. DUVAL: Monsieur le président, il y'a
28 deux points à ajouter. Premièrement, au point de vue
29 économique, c'est de l'ordre de 70 millions de dol-
30 lars, relativement. Pour la quantité de conflits



1
2 qui rentrent en cause, pour la grandeur du conflit,
3 il est bien établi, au point de vue technique, que
4 le gouvernement se sert de ces droits pour contrôler
5 les individus sur les déclarations d'impôt précédentes.
6 Alors, si c'est purement technique, on peut
7 certainement s'organiser. Si l'on dit "il faut absolument
8 conserver les successions au gouvernement fédéral
9 simplement pour lui permettre de contrôler la
10 technique de l'impôt, c'est absolument secondaire, à
11 mon sens. Il y a une certaine formule qui peut se
12 trouver en vertu de laquelle le gouvernement fédéral
13 incluerait dans sa loi de l'impôt l'obligation de
14 fournir une copie de la déclaration qui est fournie à
15 la province. Le droit et le contrôle sont deux éléments
16 différents, à mon sens.

17 M. LE COMMISSAIRE BEAUVAIS: Ne croyez-vous
18 pas que le gouvernement fédéral et les provinces é-
19 changent des renseignements quant à l'impôt? Je crois
20 que oui.

21 M. DUVAL: Oui, à l'heure actuelle, pour
22 les questions d'évaluation, ils le font, mais le gou-
23 vernement fédéral, ou plutôt le ministre du Revenu
24 a souvent dit à la Chambre qu'il conservait cette
25 imposition non pas pour le revenu mais pour certain
26 contrôle. Alors, si c'est là le but, il y a moyen de
27 trouver une technique de tempérer la loi et de régler
28 les conflits qui s'élèvent, particulièrement dans la
29 province de Québec.
30



M. CARON: B. Impôts indirects

Examinons maintenant les impôts indirects;

soit la taxe de vente, les taxes et droits d'accise,
les droits de douane.

a) Taxe de vente

Au début de cette étude, nous avons souligné qu'une diminution de revenus dans un domaine devrait être compensée par une augmentation dans un autre domaine. La taxe de vente nous apparaît comme une source importante de revenus.

1) 10e principe

La chambre recommande de remplacer la taxe de vente au niveau du fabricant par une taxe de vente au niveau du détaillant.

Cette taxe de vente serait très près du consommateur.

- Elle affecterait beaucoup moins la structure des prix,

- Elle serait beaucoup moins difficile à administrer qu'une taxe au fabricant,

- Elle éliminerait les prix notionnels de vente,

- Elle ferait prendre conscience au consommateur du fardeau fiscal qu'il supporte.

2) Le problème de perception

La Chambre croit qu'une double perception ajoute des frais supplémentaires que le citoyen est appelé à payer et complique la perception.

On devrait éviter le chevauchement des



1
2 services en tant que c'est compatible avec les droits
3 de chacun.

4 M. LE COMMISSAIRE BEAUVAIS: Quand vous
5 dites que "la Chambre croit qu'une double perception
6 ajoute des frais supplémentaires", est-ce que vous
7 suggérez que cette taxe-là soit perçue par le gouver-
8 nement fédéral, ou par chacune des provinces?

9 M. CARON: Nous croyons qu'il devrait y
10 avoir moyen de trouver une formule par laquelle on
11 éviterait les efforts doubles. Peut-être que c'est
12 une question de compromis entre les gouvernements;
13 peut-être chacun doit-il donner quelque chose pour
14 l'établissement et le prélèvement, mais il n'y a pas
15 de doute qu'en maintenant le système de perception en
16 double, cela impose des charges onéreuses sur tous
17 les contribuables, et ce n'est certainement pas dési-
18 rable.

19 M. LE COMMISSAIRE BEAUVAIS: Dois-je com-
20 prendre que quand vous dites "en double", vous préfé-
21 reriez la centralisation de la perception?

22 M. CARON: Bien, c'est assez difficile de
23 trouver une solution marquée, mais si l'on pense
24 fort, peut-être que le gouvernement provincial peut
25 exécuter certaines fonctions fédérales, et vice-
26 versa. Il y a toute une multiplicité de problèmes,
27 là. Il y a peut-être des droits à conserver. Peut-
28 être qu'un gouvernement doit recevoir un rapport, et
29 les deux doivent recevoir le même rapport, et qu'un
30 seul doit le conserver et tenir l'autre informé, ou



1
2 vice-versa.

3 M. LE COMMISSAIRE BEAUVAIS: N'avez-vous
4 pas quelque doute que des provinces comme l'Ontario
5 et le Québec hésiteraient avant de se départir de
6 leurs droits?

7 M. CARON: Monsieur le président, je ne
8 suis pas en position de donner une solution à ce
9 problème-là. Mais supposons que le gouvernement fédé-
10 ral abandonne la taxe de vente pour le bénéfice du
11 gouvernement provincial, je parle de l'abandon du
12 système de cotisation et de perception, je ne parle
13 pas de la taxe prélevée, peut-être que le gouvernement
14 provincial abandonnerait la cotisation et la percep-
15 tion de l'impôt sur le revenu. On encore disons que
16 chaque province n'abandonne pas la perception, mais
17 peut abandonner la cotisation à un autre, et qu'elle
18 soit informée du résultat. Bref, disons que le
19 gouvernement fédéral cotise pour l'impôt sur le revenu
20 et les gouvernements provinciaux pour la taxe de
21 vente, mais de toute manière évitons la double im-
22 position, parce que cela s'impose sur le fardeau que
23 le contribuable est obligé de supporter.

24 M. LE COMMISSAIRE BEAUVAIS: Mais le point
25 principal que vous soulevez n'est-il pas celui-ci,
26 et vous dites ceci dans votre mémoire, nous avons fait
27 des suggestions qui vont se traduire par une diminution
28 du revenu national. Il faut trouver une taxe quelcon-
29 que, un moyen quelconque de contre-balancer cette
30 formule-là, et votre opinion, c'est que la taxe de



1
2 vente actuelle disparaisse et soit remplacée par une
3 taxe au niveau du détaillant, qui fournirait un mon-
4 tant pour compenser les pertes de revenus?

5 M. CARON: C'est ça, et là vous avez deux
6 taxes de vente au même niveau, une par le gouvernement
7 provincial et l'autre par le gouvernement fédéral.

8 M. LE COMMISSAIRE BEAUVAIS: D'accord.

9 M. CARON: Tout comme vous avez deux impôts
10 sur le revenu.

11 THE CHAIRMAN: Mr. President, this is a
12 matter of importance and of necessity, that if both
13 federal and provincial sales taxes can be levied at
14 the retail level, can the Act be made uniform. Now,
15 I think there is an essential difference between the
16 Quebec Act and in the other provinces which relates
17 to the difference between the common law and the
18 Civil code. Now, it may not be a difference which
19 cannot be reconciled, but are you aware of anything
20 of significance which would make the bringing together
21 of the sales tax laws difficult?

22 M. McLAUGHLIN: Nous ne connaissons pas
23 de difficulté majeure, parce que nous avons là un
24 domaine qui est un peu différent de la question des
25 droits successoraux et de l'impôt sur le revenu, il y
26 a une relation tout de même très étroite avec les
27 droits de propriété. Du côté de la taxe de vente, il
28 y aura probablement des difficultés mineures, mais
29 je ne pense pas que le Code civil suscite d'obstacles
30 majeurs, du moins, je n'en connais pas.



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2 Mais pour revenir à l'élimination de la
3 duplication, c'est entendu que nous en sommes en
4 faveur, et nous vous soumettons une suggestion qui
5 nous a plu, et c'est celle qui a été faite par un
6 directeur de la Canadian Tax Foundation dans un
7 article publié l'automne dernier, dans lequel il se
8 demandait si les provinces ne consentiraient pas plus
9 facilement à retenir les services du gouvernement fédé-
10 ral comme agent de perception, si le gouvernement
11 fédéral était prêt à retenir les services des provinces
12 comme agents de perception dans le domaine de la taxe
13 de vente.

14 Et maintenant M. Carter vient de mentionner
15 qu'il y aurait lieu d'uniformiser les lois; c'est
16 évident, mais cela ne semble pas tellement désirable,
17 à la lumière des conférences interprovinciales qui
18 ont eu lieu au cours des dernières années. Il y en
19 a eu une à Victoria, et on l'a déjà mentionnée, je
20 crois, et l'on a dit que les provinces d'Ontario et
21 de Québec sont en négociations sérieuses afin d'éviter
22 l'évasion fiscale dans le domaine de la taxe de vente
23 sur la frontière - si vous me permettez cette expres-
24 sion de frontière - du Québec et de l'Ontario.
25 Maintenant il nous semble qu'il y aurait peut-être un
26 quid proquo de ménager les sensibilités de la province
27 de Québec du côté de l'impôt sur le revenu, en disant
28 "vous allez agir comme agent de perception dans le
29 domaine de la taxe de vente au détail".

30 COMMISSIONER WALLS: With the increased



1
2 emphasis on consumer taxes, earlier you stated that
3 you would have exemptions in order to increase the
4 income flow to families. As you are aware, we have
5 a very large list of exemptions at the present time.
6 What groups of purchases have you envisaged as being
7 further exempted and still assure us of getting
8 increased revenue from increased taxation?

9 M. McLAUGHLIN: Je pense que nous avons
10 conçu une taxe de vente au détail comme étant la taxe
11 qui devrait remplacer les pertes de revenu que nous
12 avons proposées. Et nous n'avons pas fait de recom-
13 mandation à ce sujet-là parce que nous n'étions pas
14 en mesure de faire les études appropriées, mais une
15 possibilité que nous avons envisagée, c'est que si
16 on limite les exemption d'une taxe de vente au détail
17 strictement, aux nécessités vitales, telles que les
18 aliments et les services d'hôpitaux et médicaux, et
19 si vous en étendez l'application, c'est-à-dire si vous
20 étendez l'application de la taxe de vente à l'indus-
21 trie tertiaire, au secteur des services, vous pourrez
22 avoir là une taxe de vente extrêmement productive.

23 Et au début, lorsque nous avons mentionné
24 des exemptions plus larges, nous avions à l'idée
25 surtout l'impôt provincial sur le revenu, parce que
26 dans le contexte d'une taxe de vente plus réaliste,
27 il serait juste d'élargir les exemptions au point de
28 vue impôt personnel sur le revenu, pour ne pas écraser
29 le contribuable dans le revenu le plus bas.

30 COMMISSIONER WALLS: In the tax as we have



1
2 it now at the manufacturers' level, any relative
3 tax would not have to be increased in order to
4 give greater revenue?

5 M. CARON: En principe, si la base
6 d'application est plus considérable, cela va
7 automatiquement amener un revenu additionnel,
8 si elle était amenée au niveau du détaillant
9 plutôt qu'à celui du fabricant.

10 M. McLAUGHLIN: Monsieur le président,
11 j'ai vu une assertion faite par des gens sérieux.
12 Evidemment, je ne l'ai pas vérifiée - ce n'est
13 peut-être pas fiable - mais on dit qu'un taux de
14 taxe de vente au détail de la moitié du taux au
15 niveau du fabricant devrait produire sensiblement
16 le même revenu. Maintenant, est-ce que c'est
17 exact? Je ne le sais pas, car nous n'avons pas
18 vérifié, mais il est certain qu'un taux de taxe
19 de vente au détail peut être très inférieur pour
20 le même revenu, qu'une taxe de vente au fabricant,
21 et particulièrement si nous en étendons l'applica-
22 tion au secteur des services et si nous réduisons
23 les exemptions existantes aux nécessités de base
24 telles que la nourriture et les services essentiels
25 à la vie.

26 M. CARON: Monsieur le président, je
27 devrais vous faire remarquer, cependant, que dans
28 notre mémoire nous ne sommes pas allés aussi loin
29 que vous l'indiquez, dans le champ spécifique de
30 la taxation, et là, c'est simplement la discussion



1
2 qui nous a amenés à formuler ces recommandations.

3 M. LE COMMISSAIRE BEAUVAIS: Est-ce
4 que ce genre de taxation ne se rapproche pas de
5 la valeur ajoutée, parce que, éventuellement, au
6 niveau du détaillant, vous avez les gages, les
7 services, etc.?

8 M. CARON: Oui, monsieur le président.
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1 COMMISSIONER PERRY: I would just like to
2 say that, looking very carefully at what is involved
3 in the changes you are proposing, the cost of what
4 would seem even a minor change in income tax would
5 be astonishing in the matter of revenue. One could
6 easily use up a billion dollars, and to take care of
7 this would involve a very great increase in sales tax.
8 You are really suggesting quite substantial shifts
9 of revenue here.

10 M. CARON: C'est pour cela qu'on n'a pas
11 mesuré l'intensité des diminutions ou celle des aug-
12 mentations, justement parce que c'est beaucoup plus
13 complexe que cela, mais c'est la question de principe
14 que nous désirons établir et que nous aimerions
15 obtenir ces choses-là, si elles sont possibles, dans
16 les limites de la somme de revenu global que le
17 gouvernement doit obtenir.

18 b) Taxes et droits d'accise - lle principe

19 La Chambre reconnaît que l'existence de
20 certaines taxes d'accise est justifiée, en tant que
21 ces taxes n'affectent pas l'usage des biens essentiels.

22 Comme éléments de politique économique,
23 ces taxes sont nécessaires pour obtenir plus de revenus
24 en affectant les produits de luxe.

25 M. LE COMMISSAIRE BEAUVAIS: Monsieur Caron,
26 j'aimerais que vous arrêtiez ici. Tout d'abord, vous
27 dites "que l'existence de certaines taxes d'accise
28 est justifiée". Vous n'avez pas à l'esprit des exem-
29 ples que vous pourriez nous donner? A titre d'exemple,
30 quelles sont les taxes d'accise qui, à votre avis,



seraient justifiées?

M. CARON: Monsieur le président, le mémoire n'en mentionne pas, parce que s'il avait fallu faire cela, nous aurions été obligés de présenter un volume beaucoup plus considérable. Nous nous sommes limités, mais nous pourrions certainement vous en fournir.

M. McLAUGHLIN: Monsieur le président, je pense que sans donner d'exemple spécifique, car notre idée n'est pas de donner des exemples spécifiques, nous voulons cependant affirmer ou plutôt appuyer l'idée que certaines taxes d'accise sélectives sont juste dans le cas de certains produits de luxe, par exemple, ou à l'égard de certains produits dont le gouvernement voudrait encourager la fabrication au Canada.

Evidemment, là, nous entrons dans un domaine qui a plutôt trait à l'aspect de la douane, mais je pense que nous reconnaissons la justification de certaines taxes d'accise sur les cosmétiques, les tabacs, les cigarettes et certains objets de luxe.

M. LE COMMISSAIRE BEAUVAIS: Je vous demande cette question-là justement afin de nous aider.

Qu'est-ce que c'est qu'un objet de luxe? C'est une question d'opinion, car enfin il y a des gens qui nous ont expliqué que la pâte à dents était frappée d'une taxe d'accise, alors que les brosses à dents en sont exemptes. Evidemment, il faudrait reviser toute la liste. Comme vous dites, peut-être que dans certains cas, comme pour la boisson, par exemple,



la taxe d'accise est justifiée, parce que c'est une
taxe de vente additionnelle, mais ils ne veulent pas
l'appeler taxe de vente, parce que dans certains
cas, et particulièrement, pour la boisson, cela peut
s'élever à un très fort pourcentage de taxe.

COMMISSIONER WALLS: The question I do want
to ask is with your reference to luxury trade. Do I
take it from that that you interpret those products
on which we should have an excise sales tax, should be
classed as luxuries? We have had representations
that many of the products subject to excise tax are
to-day not luxuries. If you are going to place tax
on luxuries, can you tell us how you are going to
define a luxury?

M. CARON: Nous ne sommes pas allés aussi
loin que cela, monsieur le président.

M. DUVAL: Monsieur le président, lorsque
nous avons étudié cette partie-là, il ne faut pas
oublier que pour ce qui a trait à la taxe d'accise
ou de douane, dans le contexte général, l'accent a
été particulièrement placé sur l'impôt sur le revenu.

Pour revenir à une recommandation qui vous
a été faite, je pense qu'on vous a dit que l'ensemble
des taxes, comme il existe, n'est pas si mauvais.
Alors, lorsque nous arrivons dans ce domaine-là, nous
ne voyons pas d'élément tellement particulier à sug-
gérer, pour dire "Il nous faut des changements majeurs
dans ce qui existe dans l'ordre actuel des choses".
Alors, il n'est pas question, pour nous, de mettre



1
2 un accent sur la taxe d'accise ou la taxe de douane.
3 C'est que nous ne voyons pas rien de particulier à
4 ce sujet. Je ne sais pas si je représente l'opinion
5 de la Chambre....

6 M. CARON: Outre que nous ne favorisons
7 pas un système par lequel les biens essentiels seraient
8 plus taxés.

9 M. LE COMMISSAIRE BEAUVAIS: Dans l'ensemble,
10 vous êtes d'avis que le système de taxation canadien
11 est bon?

12 M. DUVAL: Il est complexe et difficile à
13 changer.

14 M. CARON: Peut-être justement trop complexe.

15 COMMISSIONER GRANT: I would like to say
16 one thing before we adjourn, and that is with regard
17 to the Estate Tax Act. The figure you mentioned this
18 morning as being the revenue derived from that source,
19 I believe, was \$60 million?

20 MR. DUVAL: I thought I said \$75 million.
21 It could be. It is from \$70 million to \$80 million.

22 M. LE COMMISSAIRE BEAUVAIS: Cela représente
23 environ 1 $\frac{1}{2}$ p. 100 du budget national.

24 MR. DUVAL: But it just happened that you
25 know somebody rich who died. But take it as an
26 average, you will find it very low. Nous avons vu
27 ces dernières années deux ou trois personnes qui
28 étaient très riches, qui sont décédées, et qui ont
29 changé tout l'ensemble des revenus. Est-ce qu'on peut
30 espérer qu'à tous les ans il y aura des sir Herbert Holt?



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2 COMMISSIONER GRANT: According to the study
3 made by the Canadian Tax Foundation on the national
4 finances, they estimated the revenue from this source
5 for the year 1962 to 1963 will be \$90 million.

6 M. LE COMMISSAIRE BEAUVAIS: Monsieur Caron,
7 je crois que vous avez un autre paragraphe à lire?

8 M. CARON: Oui, monsieur le président.

9 c) Droits de douane

10 La Chambre croit que les droits de douane
11 sont eux aussi intimement liés à la politique économi-
12 que du pays et qu'en conséquence ils peuvent être
13 justifiés selon les circonstances.

14 Ces taxes peuvent s'avérer d'importance pour
15 le commerce extérieur, puisqu'elles peuvent servir à
16 équilibrer la balance des paiements. L'application
17 des droits de douane varie selon la nécessité
18 d'adopter à un moment ou à un autre une politique de
19 libre échange, ou des mesures protectionnistes.

20 M. LE COMMISSAIRE BEAUVAIS: Vous comprendrez
21 que cela n'est pas inclus dans nos termes de référence,
22 et heureusement que nous n'avons pas à toucher à la
23 question de douane, qui est très complexe, mais tout
24 de même nous allons prendre notre temps et examiner
25 cette question quand même, mais je voulais vous signa-
26 ler ce point-là.

27 COMMISSIONER WALLS: Do you think that we
28 ever will have a time when we have a national policy
29 of either free trade or protectionism?

30 MR. CARON: I am glad I don't have to



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answer your question, sir.

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M. LE COMMISSAIRE BEAUVAIS: Y a-t-il
d'autres questions que vous voulez nous poser,
messieurs?

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M. CARON: Non, monsieur le président.

M. LE COMMISSAIRE BEAUVAIS: Je dois tout
d'abord vous dire que nous sommes heureux de vous
avoir rencontrés ce matin afin d'étudier des problèmes
qui sont les vôtres et les nôtres. J'espère également
que vous allez nous présenter un mémoire final que
nous pourrions étudier au cours des séances que nous
tiendrons à Ottawa, l'automne prochain. Je vous
remercie, monsieur Caron, ainsi que vos collègues.

Je dois excuser M. Carter, qui m'a demandé
de bien vouloir l'excuser, parce qu'il avait un rendez-
vous à midi et demi et qu'il a été obligé de partir
avant la fin de la séance.

M. CARON: Monsieur le président, je désire
vous remercier de l'accueil chaleureux que vous nous
avez accordé. Veuillez croire que nous vous sommes
reconnaissants de nous avoir permis de vous faire
certaines recommandations au nom de la Chambre de
Commerce du district de Montréal.

M. LE COMMISSAIRE BEAUVAIS: Monsieur le
secrétaire, avez-vous d'autres item à l'agenda?

THE SECRETARY: I have, Mr. Chairman, and
wish to enter into the record a brief received from
l'Association des étudiants de la Faculté des Arts
de l'Université de Montréal, as Exhibit No. 28.



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EXHIBIT NO. 28: Submission of l'Association
des étudiants de la Faculté
des Arts de l'Université de
Montréal.

THE SECRETARY: Our hearings reconvene at
9.30 tomorrow morning, Mr. Chairman.

COMMISSIONER BEAUVAIS: Our hearing is
adjourned.

---Adjournment.



[The text in this section is extremely faint and illegible. It appears to be a list or a series of entries, possibly a table with multiple columns. Some faint words like "Name", "Address", and "City" might be visible in the first few lines, suggesting a directory or a form.]



ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
MONTREAL

P. Q.

VOLUME No.: 8 DATE: April 28, 1963
(Supplement)

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3 ROYAL COMMISSION ON TAXATION

4 Hearing held in Room 404,
5 McConnell Engineering Building,
6 McGill University, Montreal,
7 Quebec, the 25th day of April,
8 1963.

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S.M. MILNE

15 MR. CHARLES E.S. WALLS

16
17 LEGAL ADVISER:

18 MR. J.L. STEWART, Q.C.

19
20 RESEARCH DIRECTOR:

21 PROF. D.G. HARTLE

22 SECRETARY:

23 MR. G.L. BENNETT
24
25
26
27
28
29
30



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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF MONTREAL, QUEBEC

April 25, 1933

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Montreal, April 25, 1963

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Montreal, Quebec,
Thursday,
April 25th, 1963.

---On commencing at 9:30 o'clock a.m.

THE CHAIRMAN: Mr. Secretary, the hearing
will come to order. Would you present any business
to us, and introduce our participants?

THE SECRETARY: Mr. Chairman, this morning
we have a brief submitted by the Quebec Federation
of Regional Unions of Caisses Populaires Desjardins.
This brief will be submitted by the Hon. Senator
Vaillancourt.

Mr. Chairman, I will enter this submission
in the record as Exhibit No. 26.

---EXHIBIT NO. 26: Submission of the Quebec
Federation of Regional
Unions of Caisses
Populaires Desjardins.

SUBMISSION OF THE QUEBEC FEDERATION OF REGIONAL
UNIONS OF CAISSES POPULAIRES DESJARDINS

APPEARANCES: Hon. Senator Cyrille Vaillancourt
Emile Girardin, Esq.
Paul Emile Charron, Esq.
Rosario Tremblay, Esq.
Andre Morin, Esq.

THE CHAIRMAN: Thank you Mr. Secretary.
Hon. Senator, gentleman, today is a French day, and
necessary
it is therefore/to use the translating equipment. I
am sorry for this need.

Now I would ask Mr. Beauvais to take the
Chair in my stead, because he is the only one of us
sitting at this table at any rate who can speak both
languages.



1 Mr. Beauvais, will you please continue.

2 COMMISSIONER BEAUVAIS: Thank you Mr. Carter.

3 Senator Vaillancourt, I am very pleased to welcome you
4 here with your colleagues. We are grateful to you
5 for having agreed to come and discuss with us the brief
6 submitted by the Quebec Federation of Regional Unions
7 of Caisses Populaires Desjardins which you have
8 submitted. We are holding this meeting in order
9 to ask questions and discuss principles, and not to
10 solve these problems, or to find solutions.

11 On behalf of my colleagues I want to tell you
12 that we greatly appreciate the excellent preparation
13 of your brief and the very interesting questions which
14 are raised in it.

15 First of all, may I point out that the name
16 of each member of the Commission is before us, and
17 you can identify us easily.

18 Mr. Senator, would you have any explanation,
19 or questions to ask, before we commence our discussions.
20 First of all I would like you to present your colleagues.

21 SENATOR VAILLANCOURT: On my right is Mr.
22 Paul Emile Charron, Secretary of the Federation; next
23 to him is Mr. Emile Girardin, the President, on my left
24 is Mr. Andre Morin, our economist, and next to him Mr.
25 Rosario Tremblay, the Director of our coordinating
26 service.

27 Now, I don't have to read the brief over.
28 You must have seen it. All I would like to do now
29 is to offer a few introductory remarks to explain our
30 position.



1 This problem of taxation of Caisses Populaires,
2 or Credit Unions, is not a new one. It is far older
3 than your Commission. In 1931 we were subject to
4 taxation. One day we came to meet the Cabinet in
5 Ottawa. We explained our position, in that we of the
6 Caisses Populaires employed people without remuneration,
7 and that we were especially occupied in educating the
8 people, so that every Canadian citizen, and the Province
9 of Quebec in particular at that time, would become a
10 citizen with improved income. That all citizens could
11 learn, could be educated, before beginning to spend
12 money. This can be explained in two ways. To think
13 before you spend means that you should think before you
14 spend money that you don't have.

15 Having explained our position, I remember a
16 remark by the then Minister of National Revenue, Mr.
17 Eiler, who having heard our remarks said "Are there
18 people around your way who are working for nothing",
19 because all our credit unions or Caisses Populaires
20 members, except the management, work for nothing.
21 We answered that they didn't work for nothing. They
22 are working for the common good, and if we are taxed it
23 will henceforth be necessary for these Caisses
24 Populaires administrators to be paid, and no better
25 result will be achieved.

26 These things having been discussed, we came
27 to an agreement for the past and for the future, and
28 we were exempted from taxation under the Act. Since
29 that time it could hardly be stated that everybody
30 agrees in respect of that principle. A number of



1 people have come before you to say that we should be
2 taxed. In our brief we have explained what we are
3 doing to educate our people, and since it is rather
4 difficult to attempt to convert everybody at large,
5 we with our cooperative unions deal only with our
6 members. Those who are not members -- take all the
7 other financial organizations, they accept anybody,
8 everybody can deal with them in business. There is no
9 choice. But we choose. We deal only with our
10 members. Secondly, the shares -- we have to be
11 members, shareholders. We call our people members.
12 Every member must at least have one share. Now, these
13 shares do not increase in value. If you buy shares at
14 a company, a hundred dollars, for instance, it might
15 be tomorrow one hundred, two hundred dollars. There
16 will be a division of shares, and the value will
17 increase again, but in our case our shares are \$5.00
18 whether they remain there ten, twenty, twenty-five
19 years. There is no speculation. There is no
20 capital increase.

21 This demonstrates what I said to you a moment
22 ago. People work for us without remuneration, for the
23 common good. It is an entirely different thing with
24 ordinary business concerns with the conventional
25 capital structure. In this way we like to think that
26 we have managed to educate, if not everybody, at least
27 two or three per cent of our people. I have been
28 dealing with social matters for the last 56, 57 years,
29 and I can say that if we manage to educate two or three
30 per cent of a certain group this is a marvelous thing,



1 because education is no easy matter. However, these
2 two or three per cent carry the rest of them along with
3 them in the proper direction.

4 We of the Caisses Populaires do not speculate.
5 We are set up to work with the working class.
6 Millionaires are not members of ours. They can do
7 very well without us. The working classes are members,
8 and they ask us to protect the little they have, and
9 moreover they ask us to protect them from the point of
10 view of loans. There are certain organizations, not
11 only in Canada, but in other parts of the world, where
12 there are some abuses, where people are lent money at
13 24 per cent interest, and when a 24 per cent interest
14 rate is levied on the original loan, repayable over a
15 certain number of months, the actual rate of interest
16 is up to 47 per cent.

17 Mr. Desjardins set up the Caisses Populaires
18 to defeat usury. If he were to return now he would
19 certainly say 47 per cent is certainly usury.
20 Furthermore, to prove that we are against speculators,
21 we are practical people, we know what is going on.
22 The person who borrows, say a thousand dollars, is
23 to begin with asked why he wants to borrow. If it
24 is for no useful purpose, with no national value
25 whatever, for instance, let us exaggerate this. Say
26 he wanted to borrow money to buy chewing gum, he wouldn't
27 be lent any money, but if he wanted to borrow money for
28 a constructive purpose, and we claim that by lending
29 money for constructive, economic purposes of value
30 to the national economy, once this money has been



1 repaid at say \$20.00 a month, once the money has been
2 entirely repaid this borrower has become somebody who
3 is used to saving. From now on he will save money at
4 \$20.00 a month to produce capital.

5 We have been preaching economy, but these
6 savings are not put there in a drawer, doing nothing.
7 Savings actually are nothing but money which is spent
8 at a later date. A man who reaches 65 needs money.
9 If he has got used to saving he will be in a position to
10 maintain the economic activity of the nation.

11 We have one million and a half members, and
12 that is an appreciable figure.

13 Finally, and this will be my conclusion, the
14 work we have been doing from the point of view of
15 education, especially over the last ten years, has been
16 intensively carried out among the young people. In
17 fact, among the school children, at the primary or
18 high school level. We realize that education is a
19 matter for the young people. There is no hope in
20 educating people of my age. If we have started out
21 on the wrong foot, there is nothing much we can do
22 about it. Yesterday morning I met seven or eight
23 hundred young children at the regional school in Levis.
24 I tried to show them how useful savings are. Young
25 people who put ten cents, fifteen, or twenty-five cents
26 in some kind of an account would certainly not be of
27 much use to the economy of the nation, but when a boy
28 has got used to putting away ten, fifteen, or twenty-
29 five cents instead of spending it foolishly, when he
30 has saved it he has educated himself. He has learned



1 to reason with himself, and tomorrow instead of acting
2 foolishly in his adult life he will know how to use his
3 money wisely. In this way we will have created an
4 honest citizen.

5 This is no source of income for the Caisses
6 Populaires. Ten or fifteen dollars saved in a school
7 is nothing, because this involves a considerable
8 administrative burden for us. Here in Montreal Mr.
9 Desjardins has managed to create savings of several
10 million dollars in the Montreal schools. No bank and
11 no financial institution is in a position to do anything
12 of this sort, because these operate at a much higher
13 level, and only in the hope of income, whereas we have
14 a different ideology.

15 We probably could be accused of not being
16 practical, but in life I think we are unique dreamers,
17 wide awake dreamers if you like.

18 COMMISSIONER BEAUVAIS: Thank you very much,
19 Senator Vaillancourt. According to your brief Caisses
20 Populaires have achieved results that have built up
21 a credit system to allow their members to meet their
22 economic needs and to protect their members, and it
23 is based on the honesty and good will of the people.

24
25 Now, before opening the question period I
26 would like you, Mr. Senator, to tell us in a very few
27 words some details of your organization. I understand
28 that the basis is the parochial Caisse, only for the
29 parish, but above that you have a regional Caisse.

30 What is the function of this regional Caisse,



1 and what is the function of the Federation, as regards
2 loans? Do they make loans to the individual, or
3 is it to finance the regional caisse.

4 SENATOR VAILLANCOURT: The basis is the
5 local Caisse, the second the District or Regional
6 Caisse. The Regional Caisse uses cheques.. There is
7 an exchange made of all these cheques. This is a
8 clearing house if you prefer. However, to set up
9 this clearing house we need money, so that the cash
10 which the local Caisses have is put in these District
11 organizations. For instance, say in the Province
12 of Quebec there are 500 places where there are no banks,
13 or any other financial institution, but there is a
14 Caisses Populaires. To be more accurate, 476.
15 These people buy gas. They have trucks, and they have
16 other equipment using gas and everything else.

17
18 --

19
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22
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1 The cheques go to the district Caisses, where all these
2 Caisses receive all kinds of welfare, old age security,
3 family allowance, et cetera. These cheques are sent to
4 the bank, federal or provincial. Now, we have ten
5 unions in the Federation. The Federation does
6 not receive any money, the Federation receives a contri-
7 bution from each local Caisse, in order that it
8 inspect all these Caisses, to carry out publicity,
9 education, and so on. This education is very important.
10 But, briefly, the Federation has no money; the money
11 it receives is contributed by the Caisses themselves.

12 COMMISSIONER BEAUVAIS: Now, the loans
13 are made from local Caisses.

14 SENATOR VAILLANCOURT: The regional Caisse
15 will lend money in the form of purchase of government
16 bonds. It will lend money to the local Caisse, if the
17 local Caisse has no money.

18 COMMISSIONER BEAUVAIS: You have just said
19 the union will make investments.

20 SENATOR VAILLANCOURT: Short-term investments,
21 yes, not beyond five years for our union.

22 COMMISSIONER BEAUVAIS: You must have
23 investments in the Federation. You have no investments
24 in the Federation?

25 SENATOR VAILLANCOURT: Very little. It is
26 mainly in the regions.

27 COMMISSIONER BEAUVAIS: What is the revenue
28 from these investments?

29 SENATOR VAILLANCOURT: They pay interest on
30 the money deposited with the union, and so on.



1 COMMISSIONER BEAUVAIS: There are \$478,000
2 mentioned here. That was in one year only, was it not?
3 What was the purpose of these funds?

4 SEN. VAILLANCOURT: These are contributions
5 provided by the upper echelons.

6 COMMISSIONER BEAUVAIS: Does it cost that
7 much?

8 SEN. VAILLANCOURT: It costs us \$1 million.
9 For inspections only we have 75 professional people, full-time
10 employees, who visit the Caisses in immense territory.
11 We go to the north, to Hudson Bay, we go as far as
12 Timiskaming. In fact, the salary of 75 full-time
13 employees, professional people, is not an inconsiderable
14 sum. That is only one aspect of it. We have education,
15 publicity, publications, and investments. No Caisse
16 can invest any money without the prior consent of the
17 Federation.

18 COMMISSIONER BEAUVAIS: This money is not
19 paid to the Federation, it is paid to the unions?

20 SEN. VAILLANCOURT: There are 80 inspectors
21 coming directly under the Federation. When the Federation
22 inspector comes along and finds out that in one union,
23 for instance, the bookkeeping does not balance, and
24 so on, he informs the union and the union has another
25 group of inspectors on the spot and the union inspector
26 will go out and spend two week or three weeks or a
27 month inspecting the Caisse. We have an inspector who
28 inspects the work and another one who does education
29 work.

30 It often happens that we have bad loans, and



1 we must protect our people. Ten per cent of the
2 contributions are set aside to go into the security
3 fund to protect the local Caisse. So this is the way
4 to insure that the Caisse is protected, and money
5 will be loaned to the Caisse for 20, 25 years at ten
6 per cent interest.

7 COMMISSIONER BEAUVAIS: In your experience
8 in the last few years, does it reveal that these
9 amounts accumulate or are maintained at the same level?

10 SEN.VAILLANCOURT: It increases each year by
11 ten per cent. But it is set aside, it is not used
12 up entirely.

13 COMMISSIONER BEAUVAIS: At the present
14 time what is the amount left?

15 SEN.VAILLANCOURT: I think we can say in the
16 last 25 years \$5,000 or \$6,000 has been set up, while
17 the rest has been invested in government bonds. The
18 amount is the same.

19 COMMISSIONER BEAUVAIS: Now, the amount
20 of \$796,000 mentioned on page 20, is it turned over to
21 the Federation? What is it used for?

22 SEN.VAILLANCOURT: This is used for inspection,
23 publicity, propaganda, setting up of the staff to have
24 investments, and so on. For instance, take one dollar
25 in contributions. The Caisses pay one-tenth of one per
26 cent of the money on hand at the end of the year.
27 Of that, ten per cent goes to the security fund; the
28 other 90 per cent is divided 50-50 between the Federation
29 and the unions.

30 COMMISSIONER BEAUVAIS: Now, I see in your



1 brief that you say that the Caisses Populaires gives
2 some services not given by banks, and you state that
3 there are 471 Caisses where they are not even served
4 by agencies or banks.

5 The income of the shareholder is limited,
6 as you have said. What is, approximately, the dividend
7 paid?

8 SENATOR VAILLANCOURT: It is based entirely
9 on the figure of the local Caisses.

10 COMMISSIONER BEAUVAIS: What is the figure,
11 approximately?

12 SENATOR VAILLANCOURT: It is just like any
13 bank; on shares, five per cent, five per cent at the
14 very most. There are Caisses where they will pay six
15 per cent.

16 COMMISSIONER BEAUVAIS: Of course, the
17 income to the shareholder is taxable?

18 SENATOR VAILLANCOURT: Yes.

19 COMMISSIONER BEAUVAIS: Let's speak of the
20 need of income to the association, because this is a
21 most important point in our consideration, the need
22 of subsidies, whether in the local Caisse or otherwise.
23 We would like to know for what purpose it is used.
24 Is this given back to those who borrowed?

25 SENATOR VAILLANCOURT: Yes, it does go
26 there, because, as a matter of principle, if we benefit
27 one person, if we give a benefit to the person who gives
28 the money, that is one case. Say we lend at six
29 per cent. We have considerable profit, because if,
30 for instance, we paid four per cent interest to our



1 members, this wouldn't be right. The first principle
2 is that we have to give an advantage to the borrower.
3 That is our main object. If we lend at six per cent
4 and we increase our premium from three to four per cent,
5 this will mean bringing down the original interest rate
6 from six per cent to five and a half per cent.

7 COMMISSIONER BEAUVAIS: It is to build up
8 reserves; secondly, you look to those who borrow
9 during the year, and, certainly, you increase the interest
10 paid or credited to the depositors.

11 Now, when you reduce the annual interest
12 on loans, is this credited to their debt?

13 SENATOR VAILLANCOURT: Yes, it is
14 credited to their debt.

15 COMMISSIONER BEAUVAIS: So it carries
16 on from the previous year and therefore their debt
17 is reduced by the amount of their premium?

18 SENATOR VAILLANCOURT: By \$15.

19 COMMISSIONER BEAUVAIS: What do you do with
20 your surplus? In your brief you say that you try to
21 give service at cost. You therefore eliminate profit
22 through this means.

23 SENATOR VAILLANCOURT: There is another point
24 again. We have to set up our reserve; that is a
25 legal requirement. Secondly, we have to increase our
26 office space, et cetera; that is a capital expense.

27 COMMISSIONER BEAUVAIS: That is the use of
28 your cash. So it is not in proportion with the capital.

29 SENATOR VAILLANCOURT: Never.

30 MR. CHARRON: May I point out, Mr. Chairman,



1 that according to Section 46 any annual increase in
2 premiums on the social shares must be accompanied by
3 a comparable advantage in the conditions of borrowing.
4 It can be done by a lowering of the interest rate.

5 COMMISSIONER BEAUVAIS: Do I understand
6 that the interest comes first, the interest you pay
7 to members on the dividends? Does that come first?

8 MR. CHARRON: You have to distinguish
9 between the interest rates --

10 SENATOR VAILLANCOURT: The first thing
11 is what comes first, interest on savings.

12 COMMISSIONER BEAUVAIS: Another question.
13 The shareholder or the member as such, does he have
14 a right to take advantage of the net capital assets?

15 SENATOR VAILLANCOURT: The net fund cannot
16 be distributed to the members, so the member has no
17 right to it. He has a right to his full dollar, yes.
18 The breaking up of the assets is taken care of under
19 the terms of the council.

20 COMMISSIONER BEAUVAIS: Now, there is a
21 fee. I understand that these fees are never returned
22 to the members. What are they used for?

23 SEN. VAILLANCOURT: It goes directly to the
24 reserve.

25 COMMISSIONER BEAUVAIS: The same fund that
26 goes on every year?

27 SEN. VAILLANCOURT: Yes.

28 MR. TREMBLAY: Mr. Beauvais, this shows
29 the exact distribution of the net income. I could tell
30 you rapidly in percentages and in volume what the
exact figures are, page 186, December 31st, 1960.



1 Within one year, these subsidies were
2 \$26,000, ~~37~~ that is 60 per cent. The interest on loans
3 is 63.4 per cent as sources of revenue. Investments,
4 26 per cent; administration fees, 2.4 per cent;
5 and other revenue, 8.2 per cent.

6 Now, in the following column there is
7 a figure of \$3,181,000 of total income for the central
8 Caisses. You can see that there are \$404,000
9 provided by interest on loans.

10 A little lower you have all these figures
11 since 1955 on a similar basis. We have that in English
12 also.

13 COMMISSIONER BEAUVAIS: I understand that
14 the manager and the employees only are paid.
15 There are no fees for the directors, no remuneration at
16 all, as you say in your brief, for the directors.
17 Isn't it true, however, that Section 46 of the
18 Quebec legislation in respect of the Caisses Populaires
19 sets it out that these Caisses are not to engage in a
20 profit-making operation. Has that been done recently?

21 SENATOR VAILLANCOURT: This is true in the
22 new legislation, too, yes.

23 COMMISSIONER BEAUVAIS: We have seen a great
24 increase in the activity of the Caisses, and we were
25 wondering whether they were not dealing in
26 commercial matters.

27 SENATOR VAILLANCOURT: The loans, speculative
28 loans, loans to merchants, we are not concerned with;
29 we are not going into that field.

30 COMMISSIONER BEAUVAIS: In the case of



1 winding up, you say that what is left from realized
2 assets given to a concern designated by the Lieutenant-
3 Governor in Council.

4 SENATOR VAILLANCOURT: There may be
5 charitable institutions, recreation associations, and
6 so on.

7 COMMISSIONER BEAUVAIS: But the Lieutenant-
8 Governor in Council must deal with these matters of
9 public utility as laid out in the Act. Are these
10 purely --

11 SENATOR VAILLANCOURT: Yes, philanthropic.

12 COMMISSIONER BEAUVAIS: The members will
13 receive nothing except their \$5?

14 SENATOR VAILLANCOURT: This is the case.

15 COMMISSIONER BEAUVAIS: I see that the
16 province pays a subsidy of \$80,000 a year. That is
17 used for special reserve. That is over and above the
18 income you get from local Caisses?

19 SENATOR VAILLANCOURT: Yes.

20 COMMISSIONER BEAUVAIS: Now, the main use
21 of your surplus, that is your reserve, when you have
22 paid a proper interest on savings, then you have a
23 reserve left, and this reserve produces an income.
24 Is this income invested in reserves?

25 SENATOR VAILLANCOURT: No, -- well, the
26 \$80,000 which we get from the provincial government is
27 not even ten per cent of our income. Most of this is
28 done by contributions from local Caisses. It is about
29 \$1 million every year. Now, at the end of the year we
30



1 prepare our budget and we manage to break even.

2 COMMISSIONER BEAUVAIS: What would happen
3 if the government taxed your profits? What effect would
4 government taxation have on your profits?

5 SENATOR VAILLANCOURT: The effect would be
6 that everybody would have to be paid, and this would
7 stifle initiative, and then you have the various fees
8 required, and so on. This would be terrible and it
9 would destroy the work of years. And besides that,
10 we could raise the interest rates and so on.

11 COMMISSIONER BEAUVAIS: But your present
12 rate of interest follows the going rate, doesn't it?
13 You have an average of approximately seven per cent?

14 SENATOR VAILLANCOURT: No, the average
15 interest rate is between five per cent and six per cent.
16 The seven per cent includes interest.

17 COMMISSIONER BEAUVAIS: It includes interest?

18 SENATOR VAILLANCOURT: Yes, the interest
19 on loans, in case of death.

20 COMMISSIONER BEAUVAIS: But your mortgage
21 rate is included?

22 SENATOR VAILLANCOURT: We lend at five and
23 a half per cent.

24 COMMISSIONER BEAUVAIS: Does this include
25 insurance?

26 MR. TREMBLAY: Five and a half per cent.

27 COMMISSIONER BEAUVAIS: Every time you put
28 in \$100 the premium is reduced?

29 SENATOR VAILLANCOURT: Between five per cent
30 and five and three-quarters per cent. It depends on the



1 amount that is borrowed.

2 THE CHAIRMAN: I should like to ask a
3 few questions.

4 I am very much impressed by this social
5 organization. As a matter of fact, I am the President
6 of the Canadian Welfare Council, and this is a story
7 which we should know, apart altogether from taxation.
8 This is a great social story and it is something I
9 did not know before. I had an idea of what credit
10 unions were, but I had no idea of the extent of the
11 social values of the Caisses Populaires movement.

12 The only question which occurs to me is
13 perhaps related to a better understanding of the
14 financial side. I have before me the balance sheet
15 which shows in the first column the local Caisses
16 Populaires, and I can understand that. Central
17 credit societies. Now, that would include the
18 Federation, I would imagine, and there are a number, I
19 think, of regional organizations.
20 I have an idea that you mentioned five, and yet I see
21 down here at the bottom of the sheet a reference to ten.
22 Would there be ten regional organizations?

23 SENATOR VAILLANCOURT: Yes.

24 On pages 169 and 170 we
25 have a detailed summary of operations, to December 31st,
26 1961.

27 MR. TREMBLAY: Mr. Chairman, there are no
28 figures pertaining to the Federation in these figures.
29 They are the assets and liabilities of the local Caisses,
30 of the local and regional units, but not of the Federation.



1 SENATOR VAILLANCOURT: There is one per
2 cent paid at the end of the year, and the Federation
3 does not receive any saving. We spend the money for
4 inspection, and so on.

5 THE CHAIRMAN: I gather that the Federation
6 is not included in this balance sheet here.

7 SENATOR VAILLANCOURT: No.

8 THE CHAIRMAN: Now, is there a balance sheet
9 of the Federation? I understand that the Federation
10 itself receives the fees and there is an amount, as
11 you have explained to Mr. Beauvais, spent on technical
12 inspections and services, and so on. Can I find
13 a balance sheet in the pages here? Do you publish a
14 balance sheet of the Federation?

15 MR. TREMBLAY: We have no objection, I
16 think, to showing them to the Commission. It has
17 no particular value. These are services which we render.
18 We have received \$1 million in contributions. We have
19 been in existence for 30 years, and this represents about
20 \$100,000.

21 THE CHAIRMAN: Thank you, I understand. The
22 reserves are carried in the central credit societies
23 which does not include the Federation?

24 SENATOR VAILLANCOURT: No, that is right.

25 THE CHAIRMAN: And, of course, there are
26 reserves in the locals?

27 MR. TREMBLAY: Yes. There are in the
28 central Caisses local liquidities, which are handed over
29 to local Caisses and which are later used for lending
30 to members.



1 COMMISSIONER BEAUVAIS: Yes, but if a
2 local Caisse lends \$10,000 to the regional Caisse,
3 can this regional Caisse use the \$10,000 for local
4 help?

5 SENATOR VAILLANCOURT: No, this is merely
6 used to cash cheques, and it saves the local Caisse
7 having to use large amounts of money. They only
8 lend out money which they have had.

9 We have had some experience in this matter.
10 In 1932 some Caisses had borrowed money to lend it out
11 again. That is a bad principle. We cannot lend
12 out more money than we have. The local Caisse only
13 uses its own reserves. In some cases, if they want
14 to buy bonds, they have to ask the permission of the
15 Federation so that this will be done properly, so that
16 it will be done on an operating basis. However, it is
17 up to the local Caisse to know what it is going to buy.

18 THE CHAIRMAN: One more question, Senator.
19 The investment income for the year ending December 31st,
20 1960, in the case of the local Caisse is \$6,900,000, and
21 for the central credit societies it is \$2 million.
22 These are earnings in respect of reserves, I would think,
23 rather than on the earnings of loans made to members.
24 The loans made to members are under a separate heading,
25 I believe, and are shown at \$17 million. If that is
26 the case, I would suggest that the interest rates
27 which you charge to the members are lower than they would
28 be without the earnings with respect to these reserves,
29 because the investment earnings of the local Caisses are
30 \$3,000,190, and if there were no investment income there
would



be no retained earnings. Am I clear?

MR. TREMBLAY: You will see on line 29, in the Assets there is a figure of 223 million dollars in bonds sold retained by local Caisses, which are interest-bearing, and whose product is included in the sum of \$6,900,000 in the income figure which you have just quoted. On the other hand, there are \$65,000,000 in investments for the central Caisses, which accounts for your \$2 million income for the central Caisses shown at the following page.

It is therefore not right to say that the \$6,900,000 income for the local Caisses and the \$2 million for the other Caisses is the result of the operation of the reserve fund. This is a part of the income of the Caisses, but only a part. The rest are only liquidities, which we have to maintain in the same way as banks, the Bank of Canada for instance, with their primary reserves.

COMMISSIONER PERRY: There are just one or two other minor points I would like to raise. I recall when an answer was given to the question as to whether you make commercial loans at all, that you didn't. Is that a proper understanding?

SENATOR VAILLANCOURT: No, we do not make any commercial loans.

COMMISSIONER PERRY: I just wanted to be clear on that.

MR. TREMBLAY: What do you mean by commercial loans?

COMMISSIONER PERRY: A loan other than to an individual for his own personal use I would think.

"C"
AG/bg



C-2

1 MR. TREMBLAY: We have other kinds of
2 individual loans. We have loans to public bodies,
3 school boards, parishes, local coops, and in some
4 cases, we told you a moment ago that we have Caisses
5 in 476 localities where there are no branches of banks,
6 and it is possible that in such Caisses a small
7 merchant, who will be a member of the Caisse will be
8 in need of a loan. It will be, of course, a moderate
9 loan. Such cases may happen, but there are no loans
10 as such to industry, business, and so on.

11 COMMISSIONER PERRY: I am not suggesting that
12 there is anything wrong with it. It is just for
13 information.

14 SENATOR VAILLANCOURT: We make no loans
15 on the guarantee of goods.

16 COMMISSIONER BEAUVAIS: When you lend money
17 to merchants, say to a little saw mill, do you always
18 do it on mortgages?

19 SENATOR VAILLANCOURT: Yes, but this happens
20 only when there are no bank agencies. This represents
21 maybe one per cent of our business.

22 MR. CHARRON: We do make mortgage loans which
23 might be similar to banking operations.

24 COMMISSIONER PERRY: This anticipates an
25 extra question which was about mortgage loans on
26 business properties.

27 SENATOR VAILLANCOURT: No.

28 COMMISSIONER PERRY: So that all your mortgage
29 loans are on residential properties?

30 SENATOR VAILLANCOURT: Yes.



C-3 1 MR. TREMBLAY: It is possible that out of
2 the 1,200,000 that we would have security on a building.
3 Now, for the information of the Commission, our
4 economist tells us that since 1945 the entire loans
5 given to cooperatives, public bodies, made by the
6 Caisses within the province is a mere \$75 million
7 which is a very tiny part of the total amount of loans
8 over 18 years, which is very, very little indeed.

9 COMMISSIONER PERRY: Has it ever been
10 suggested to you that the return of annual surplus as
11 a reduction in the debt of borrowers should be subject
12 to personal income tax? Please / just take the question as
13 stated. I am not suggesting, or implying or anything
14 of the sort. I am asking you whether this has ever
15 been put to you?

16 SENATOR VAILLANCOURT: It is so small that,
17 you know, people coming to us are not coming for loans
18 of \$40 or \$50 thousand dollars. The general mortgage
19 loan is between \$7,000 and \$10,000, and if at the
20 end of the year we granted one-half of one per cent
21 this would represent about \$10 or \$15, which is a
22 trifle, but over the whole it represents a fair
23 amount though.

24 COMMISSIONER BEAUVAIS: What is the average
25 number of borrowers?

26 SENATOR VAILLANCOURT: The average number of
27 loans made in 1962 was 195,273, and for mortgage loans
28 it was 24,452. These are new loans only.

29 COMMISSIONER BEAUVAIS: I was asking for the
30 total, because you say the reduction is a trifle.



1 SENATOR VAILLANCOURT: There is not much
2 difference, because this money is going around. Now,
3 on the 31st of December the number of borrowers was
4 135,679 on notes, and on mortgages it was 24,664.

5 COMMISSIONER PERRY: I was deliberately asking
6 whether this suggestion had ever been made to you,
7 whether it had ever been raised, as a suggestion, for exam-
8 ple by authorities in Ottawa?

9 MR. TREMBLAY: This matter has been raised
10 when we were dealing with the Investigation Committee
11 on cooperatives in 1946. At that time indirectly
12 there was some question raised about taxing cooperatives.
13 The House of Commons includes in their legislation the
14 recommendations put forward by the Macdougall Commission.
15 However, there has never been other questions raised
16 in this respect. However, newspapers and others have
17 said that the surplus we give back to the borrowers
18 in premiums should be taxed.

19 COMMISSIONER WALLS: The Hon. Senator, at
20 the beginning of his remarks, stated that you hoped to
21 achieve the effect of educating two or three per cent
22 of the population to sound financial practice. I
23 think you far exceeded your aim, because as I understand
24 it 14 per cent of all the population in Canada deals
25 with credit unions, and one-half of all credit union
26 members are located in the Province of Quebec. So
27 your percentage must be quite high. I only make that
28 as an initial remark.

29 The question I want to ask is that the
30 legislation dealing with credit unions varies greatly



C-5 1 between one province and another, and there is one
2 factor that is quite different between your Caisses
3 Populaires and other credit unions, in that in other
4 provinces they require government control, or
5 government inspection, whereas I understand your Quebec
6 Act has passed this on to your parent organization,
7 your Federation, to do the inspection and control, sort
8 of I believe on the same basis that the father can
9 control his son and guide him better than an outside
10 agency.

11 Have you found this in effect to be true?
12 Are you able to guide these locals when they head into
13 wrong practices quicker, do you feel, by doing this
14 service yourselves, and what losses, if any, have the
15 members of your locals encountered, or what dis-
16 olutions have there been in recent years as a result
17 of bad practice?

18 SENATOR VAILLANCOURT: We feel, and we have
19 carried out inspections ourselves since 1932, that our
20 own inspection is more efficient than if this was a
21 government matter, because when the government comes,
22 the only concern of the people involved is to see
23 whether the books balance. But we are concerned with
24 something else. We are not merely concerned with
25 books. We are concerned with the respect of the
26 spirit of the rules of the Caisse. Also we know that
27 the government, whether it be Ottawa or Quebec can't
28 look into those matters as closely as we can. We know,
29 for instance, that say we have a credit union manager
30 somewhere whose living standard is a little high for



C-6 1 his salary say, that he lives a little high, well,
2 we have our regional inspectors on the spot, and we will
3 carry out one, two, three, four or five inspections
4 in one year, which is not done by government in the
5 other provinces. By this means we manage to prevent
6 some losses perhaps. This is probably not an
7 enormous figure, but since the Caisses have been set
8 up in the Province of Quebec over the last 60 years
9 we have not lost one-fortieth of one per cent of the
10 money that has been placed with us. This is an
11 absolutely negligible figure. One-fortieth of one
12 per cent. And we include in that thefts. You
13 know that gangsters nowadays are our biggest item of
14 expense. We have insurance of course to protect us.
15 We have to look after all those matters.

16 Now, we feel that with our own Federation
17 Inspection Services, and with inspection carried out
18 by Regional Caisses on the spot, it is far more
19 effective than any government organization would be.
20 This is far more efficient.

21 COMMISSIONER WALLS: Thank you sir.

22 COMMISSIONER GRANT: Well gentlemen, I am much
23 impressed with the organization, and the questions which
24 I start to address to you now have to do more with
25 the administration end of the organization than with
26 the financial end.

27 I am interested in knowing that you have 476
28 locals in areas where there are no banks, and do I
29 understand the situation correctly when you say that
30 these locals are autonomous in so far as the granting



C-7 1 of a loan is concerned? If a borrower wishes to
2 borrow money he approaches his local, and as to whether
3 or not he is a worthy borrower that decision is made
4 by the local. The local then is made up of the
5 citizens, or a group of citizens of that particular
6 parish, or area, and the only supervision which the
7 parent body keeps over that, or has over that, is
8 really the inspections which are carried out annually,
9 or perhaps more often, and they see whether or not
10 the loan is in good shape.

11 Would you tell me again, it is probably in the
12 brief, I think it is, but what proportion of your
13 loans are personal loans, and what proportion are
14 mortgages, in dollars?

15 MR. TREMBLAY: Dollar volume?

16 MR. MORIN: New loans made during the year,
17 or at the end of the year?

18 COMMISSIONER GRANT: At the end of the year?

19 SENATOR VAILLANCOURT: Loans on notes at the
20 end of 1962 were \$84,000,691. Mortgage loans were
21 357 million, in round figures. The total loans were
22 442 million at the end of the year.

23 MR. MORIN: A loan on a note normally is
24 repaid in eleven months. A loan on a promissory note
25 is usually repaid in eleven months, whereas a mortgage
26 loan is usually repayable, or on the average repaid
27 in five years. The tendency over the last five years
28 has been more to lend money on notes. In figures it
29 has been five to one, and the same obtains in volume,
30 but the mortgage loan, being repayable over a longer



C-8 1 period, the unrepaid loans at the end of the year are
2 greater in volume, of course, than the ones on notes.

3 COMMISSIONER GRANT: I think you said that
4 your loans are taken all on residential properties,
5 and that the local has the say as to whether or not
6 that loan is going to be made.

7 Payments are amortized?

8 SENATOR VAILLANCOURT: Yes.

9 COMMISSIONER GRANT: Your loans must be quite
10 small. They are not large loans?

11 SENATOR VAILLANCOURT: In the urban centres
12 today the average loan in cities is \$10,000 as against
13 \$5,000. Today the figure is \$10,000, because every-
14 thing has increased, but now from the agricultural
15 point of view the loan can even be larger in rural
16 areas. It could reach \$12,000, \$13,000. However,
17 this is an exceptional case, because nowadays, with
18 the agricultural loans made by the federal or
19 provincial government, the governments have stepped in
20 and occupied almost the whole area, but most of our
21 loans nowadays are made around the urban areas,
22 around the peripheral areas of Montreal and Quebec
23 and so on. A terrific amount of building is
24 going on around these cities, and we make loans on a
25 monthly basis for 18, 20 years, and so on.

26 When we lend out money, to begin with we
27 look at the borrower. We look at his moral worth
28 to begin with. Even if he was going to offer us
29 100, 200, or 300 per cent guarantee, if his life is
30 not proper and right he is not going to be lent money,



C-9

1 because this fellow could use the money for other
2 purposes than building a house for himself and his
3 family. He has to tell us the purpose of the loan.
4 If his moral rectitude, if his life is not right, he
5 is not going to get the loan. Then we inquire about
6 his income. If this fellow is unemployed, he will
7 be told to go and see the St. Vincent de Paul Society,
8 but not to come to us.

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1 MR. TREMBLAY: Mr. Beauvais, you have in
2 the Appendix to the report of the Royal Commission on
3 Financial Institutions the categories of loans by
4 financial institutions, that is, loans on notes and loans
5 on mortgages. You have all the details there and
6 it gives all the answers to the questions you have,
7 giving the rate of interest on loans.

8 COMMISSIONER BEAUVAIS: Can we have
9 copies of that?

10 SENATOR VAILLANCOURT: Yes, both in
11 English and French. On mortgage loans, in 1958,
12 \$78 million, 20,634 loans. In 1959, \$830 million;
13 in 1960, 50,000 loans for \$500 million; 1961,
14 24,000 loans for \$986 million; 1962, 23,000 loans for
15 \$185 million -- because construction costs have been
16 going up. But when we think of loans on notes
17 over the last few years, we have been attempting to lend
18 out money under the same conditions in order to compete
19 with companies lending at 24 per cent, 25 per cent.
20 In 1958 we made \$91,000 on notes, total value; in 1959,
21 92,900 loans for \$60 million; in 1960, 98,448 loans
22 for \$55 million and in 1961 -- this is quite a figure --
23 123,000 loans on notes for \$83 million as against \$98
24 million on mortgages. So the figures are getting
25 closer all the time.

26 Formerly, we paid \$400, \$500 on notes, but
27 nowadays, with new living standards, you buy frigidares,
28 electric ranges, and so on. This costs a lot more than
29 it used to, which explains that.
30



1 COMMISSIONER GRANT: Finally, one more
2 question. Did I understand you to say that you set
3 aside in your reserve fund 10% of your ^{income} in any given year?

4 SENATOR VAILLANCOURT: No, we set aside
5 20 per cent, but the 20 per cent is of net profits,
6 all expenses having been paid, 20 per cent of net
7 profits, after depreciation has been paid, and so on,
8 even after annual premiums have been paid. The 20
9 per cent figure is in respect of the net profit figure,
10 it is not a gross profit figure.

11 COMMISSIONER GRANT: Thank you very much.

12 THE CHAIRMAN: Senator, I would like to ask
13 a question. There is the point as to why it is
14 necessary for commercial organizations who are entering
15 into the small loans business to charge 20 per cent,
16 whereas these people are able to operate satisfactorily
17 at seven per cent and eight per cent. I understand
18 that these people do not get the free services that
19 you are talking about. Could we have an explanation,
20 if there is one?

21 SENATOR VAILLANCOURT: We make no publicity
22 for loans, because we deal only with our members, so
23 our members know where they can borrow. And, secondly,
24 anyone coming to a Caisse to borrow has to say what the
25 purpose of the loan is, and, as I say, we always seek
26 to educate the people. Someone came in and said,
27 "I want to borrow from the Caisse". We said, "What
28 for?" and it was to buy a fur coat for his wife, \$3,000,
29 and we asked him, "How much do you earn?" and he said,
30 "I earn \$4,000". We said to him, "This is nonsense",



1 and we told him, "Now, listen, put some money aside,
2 and when you have \$2,000 or \$3,000 you can buy a fur
3 coat, but before that buy an ordinary coat". We
4 try to educate our people, we try to teach them
5 before spending. We make no publicity in newspapers
6 for selling anything or buying anything, because in
7 newspapers, television, and so on, people are told to
8 spend today and pay tomorrow. One man came to me
9 and I said, "Where are you going to spend your
10 holidays this summer?" and he said, "In the kitchen".
11 I asked him why and he said, "Because I have to pay
12 for the holidays I had last year". You see how
13 ridiculous it can be.

14 In our case we would not do that.

15 COMMISSIONER BEAUVAIS: Mr. Senator, one
16 or two questions. What is the rate on notes?

17 SENATOR VAILLANCOURT: Six per cent on notes.
18 Unsecured loans, seven per cent on notes.

19 COMMISSIONER BEAUVAIS: Is that including
20 insurance?

21 SENATOR VAILLANCOURT: No, the average
22 includes the interest rate. The average is 6.5 per
23 cent.

24 COMMISSIONER BEAUVAIS: Now, insurance
25 is 72 cents per \$1,000?

26 SENATOR VAILLANCOURT: Yes.

27 COMMISSIONER BEAUVAIS: Is this a separate
28 company, this insurance company?

29 SENATOR VAILLANCOURT: Yes, it is a separate
30 company. It is a company which pays its taxes.



1 COMMISSIONER BEAUVAIS: So the insurance
2 company pays taxes on its profits?

3 SENATOR VAILLANCOURT: Yes.

4 THE CHAIRMAN: Mr. Senator, are there
5 any questions you would like to put to us?

6 SENATOR VAILLANCOURT: We have come here
7 to answer questions.

8 COMMISSIONER BEAUVAIS: Well, apparently
9 the Commissioners have no further questions to put
10 to you and your colleagues. I have found that your
11 answers have been most constructive, Senator, and I
12 thank you for the details.

13 SENATOR VAILLANCOURT: Mr. Girardin, who
14 is a former school teacher, has been dealing with small
15 children.

16 MR. GIRARDIN: Mr. Chairman, when, in 1939,
17 we launched in Montreal our education campaign for
18 school saving, the children deposited approximately
19 \$50,000 a year, and of 100,000 students there were
20 about 13,000 who were depositing. We adopted a
21 particular system which got the child to participate
22 in the bookkeeping, and in the first year the children
23 deposited one-third of a million dollars, that is
24 \$330,000 in 1939, and since, in Montreal, children have
25 deposited \$17 million and there remains to their credit
26 \$4 million, and of 180,000 students there are in
27 Montreal there are 135,000 children who have got their
28 saving books in the Catholic schools. In the
29 Province there are more than 400,000 students, because
30 this education is spread over the province because today



1 there is not one regional union which has not adopted
2 our system, there is not one Caisses Populaires which
3 has not its service in the school to invite the child
4 to deposit regularly. That is because in the province
5 now we have more than 400,000 students who have savings
6 and who have more than \$7½ million. This is an
7 example of the education of the Caisses Populaires.
8 It started at zero in 1939.

9 COMMISSIONER BEAUVAIS: This is a very
10 interesting amount, Mr. Girardin. This indicates
11 the principle of what the Senator indicated at the
12 outset, that this is a school for savings.

13 We thank you again, Mr. Senator, and
14 your colleagues. I am very grateful to you all.

15 THE CHAIRMAN: Mr. Senator, and gentlemen,
16 I want to add my own thanks for your attending our
17 hearing today and for your excellent brief. Your
18 movement is clearly in the best traditions of your
19 province. Thank you very much, gentlemen.

20 SENATOR VAILLANCOURT: Thank you,
21 Mr. Chairman.

22 ---Recess.

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1 THE SECRETARY: We have with us now the
2 representatives of the Chamber of Commerce of the
3 District of Montreal. Mr. Marcel Caron, who is
4 the President of the Chamber, will deal with his brief
5 and introduce his colleagues.

6 I would like to enter this brief as Exhibit
7 No. 27. in the record.

8
9 ---EXHIBIT NO. 27: Submission of the
10 Chamber of Commerce
11 of the District of
12 Montreal.

13
14 SUBMISSION OF THE CHAMBER OF COMMERCE OF THE
15 DISTRICT OF MONTREAL

16 APPEARANCES: H. Marcel Caron
17 Paul Clement
18 Maurice Duval
19 Charles McLaughlin
20 Marcel Camirand
21 Marcel St. Denis

22 THE CHAIRMAN: Good morning Mr. Caron and
23 gentlemen of the Chamber. We are going to speak French
24 today with the help of the interpretation. Now we
25 will ask Mr. Beauvais to preside over the meeting,
26 because Mr. Beauvais on this side of the table can
27 speak both languages.

28 Mr. Beauvais, will you continue please?

29 COMMISSIONER BEAUVAIS: On behalf of my
30 colleagues and of myself I am glad at the outset to
extend to you the warmest welcome. We have met this
morning to discuss certain points which you have made
in your brief. It is not a matter of solving the
problems, or finding a solution, but it is a matter



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1 merely of discussion.

2 To begin with, you will find the name of each
3 Commissioner on the little signs before us, so that
4 you can easily identify them.

5 Mr. Caron, I would very much like you now to
6 introduce your colleagues and to put your questions to
7 us, or make any statement you would like to make.

8 MR. CARON: Mr. Chairman, I would like to
9 begin by thanking you on behalf of the Chamber of
10 Commerce of the District of Montreal for having received
11 us this morning and giving us an opportunity to
12 present our brief.

13 We all speak and understand the English
14 language. We might not be too precise in our answers,
15 but there will be no difficulty if the discussion is
16 carried on in English.

17 COMMISSIONER BEAUVAIS: As we have a French
18 speaking reporter, may I ask you to say everything
19 you have in French.

20 MR. CARON: I would now like to introduce my
21 colleagues from the Chamber of Commerce. Mr. Paul
22 Clement, who is an accountant, Mr. Maurice Duval,
23 also a practising accountant. Mr. Georges Grondin,
24 who is employed by the Royal Trust in the Estates
25 Department, particularly administration, Jacques
26 LaRiviere, who is with the Canadian National Bank,
27 Mr. Charles McLaughlin, Direct of Taxation with the
28 Canadian Industries Limited, and who as you know
29 has been dealing with these matters of taxation for
30 some time. Mr. Marcel St. Denis, who is an associate



E-3 1 of the company Jacques Melancon & Co. Guy Vary,
2 who is a practising chartered accountant in public
3 practice. Marcel Camirand, who is a chartered
4 accountant with the firm of Clarkson, Gordon and
5 Company. Of our secretariat, we have Mr. Maurice
6 Chartrand, who is Associate General Director of the
7 Chamber of Commerce, Yvon Tremblay, who is the
8 Coordinator of our Committees. As for myself, Mr.
9 Chairman, I might say that I am President of the
10 Chamber of Commerce for this year, and I am also in
11 practice with Clarkson, Gordon and Company.

12 The brief which we are introducing at this
13 time is a preliminary study. We want to raise problems.
14 Unfortunately we have not found solutions to all of
15 them. However, we have attempted to indicate to the
16 Commission some areas of particular concern to us.
17 We would like some studies, more extensive studies,
18 made in these respects, because at this stage we are
19 quite incapable of doing it on our own.

20 If you will allow me, I would now like to
21 read the brief. I might say that the Chamber of
22 Commerce has more than three thousand individual
23 members, and more than 400 firms. The first object
24 is to promote the social, civic, and economic welfare
25 of the citizens of Montreal and more particularly
26 French Canadians.

27 For a number of years we have had a taxation
28 committee and on occasion we have submitted briefs
29 to competent authorities in Ottawa, Quebec, or Montreal.
30 The committee this year has held thirteen meetings, of



E-4

1 which a large number were given over to the preparation
2 of the brief which is now before you. Our committee
3 has looked at other briefs from other groups, and has
4 obtained points of view from various economists, and
5 so on, before preparing its own brief. The members
6 of the committee then have prepared a preliminary
7 brief, which was submitted to the Administrative
8 Council of the Chamber, and this preliminary report is
9 therefore the official opinion of the Council of the
10 Chamber of Commerce of the District of Montreal.

11 The Chamber hopes to put a longer text
12 before you to support some of the opinions expressed
13 in the brief, if it is believed that it is appropriate
14 to do so in the light of future developments.

15 The preamble has to do with constitutional
16 matters. As you know, it is in the B.N.A. Act, where
17 the responsibilities of the federal and provincial
18 governments are defined. The federal government have
19 the power of taxation, and also the provincial
20 governments, according to their responsibilities. In
21 the post war period the federal government has had a
22 tendency to tax four areas which are not of its own
23 proper concern. A large number of studies have
24 already been made to justify or to blame this type of
25 intervention, but that is a fact that should be
26 recognized.

27 Since the federal government had lots of
28 money to spend, it did spend it through mixed plans,
29 joint plans, and things of all sorts. The Chamber
30 of Commerce feels, this being the case, that there



E-5 1 should be a new apportionment of the taxation between
2 federal and provinces according to the responsibilities
3 of each party.

4 The Chamber also recognizes that it is
5 necessary to make grants to poor provinces, but this
6 should be done through a system of equalization grants.
7 There is a delicate problem to know how far we should
8 go. Should this equalization system be administered
9 by an independent commission? Should it not only
10 be used for basic purposes? Should it not only
11 deal with a strict minimum? Those are questions which
12 the Chamber has been putting to itself, and with which
13 it would like to deal at some subsequent date.
14 However, another principle should be put forward. If
15 there was such an equalization system, the federal
16 government should not direct the provinces to use
17 those sums which are given to them for particular
18 purposes, but the provinces should use them as they
19 see fit.

20 COMMISSIONER BEAUVAIS: Do you not think
21 that we should stop after each paragraph and have
22 an opportunity for questions?

23 As regards this first part, of course this
24 has to do with federal-provincial relations, and I
25 don't think that our Terms of Reference extend that
26 far. Our Terms of Reference have to do only with
27 the federal government jurisdiction. I don't mean
28 to say that it is not right in your brief to speak
29 about it, but I merely want to remind you that our
30 Terms of Reference don't extend that far.



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1 MR. CARON: This is a very essential matter
2 in our eyes, and we did want to put it forward. Our
3 point of view might not be shared by other people,
4 but in any case that is what we wanted to explain.

5 COMMISSIONER BEAUVAIS: We might continue
6 then at page 5.

7 MR. CARON: Mr. Chairman, we do realize
8 fully that the Commission has no jurisdiction to
9 examine this matter of federal-provincial relations,
10 but the point that we wish to bring to the attention
11 of the Commission is this, the fact that the federal
12 government has been levying taxation for provincial
13 purposes in the past, and we feel that this is of
14 concern to your Commission, and that your Commission
15 should deal with a situation of fact. Can the
16 federal government levy taxation for provincial
17 purposes, as it has done in the past?

18 COMMISSIONER BEAUVAIS: You are raising a
19 legal point there, because it is in the B.N.A. Act which
20 ~~regulates~~ the power of the federal government. Of
21 course, as concerns these powers, it is within the
22 Terms of Reference of our Commission, but it seems
23 to me that what concerns the provinces is beyond our
24 jurisdiction.

25 MR. McLAUGHLIN: I believe that because of
26 your Terms of Reference you can only put forward
27 suggestions in respect of money levied by the
28 federal government. We are right in asking whether
29 the federal government is now levying all which it is
30 entitled to levy. That seems to us to be a proper



E-7 1 question.

2 MR. CARON: We therefore move to the second

3 principle, the different judicial systems. The

4 Province of Quebec has a different judicial system

5 from that of other provinces. Therefore it is

6 absolutely necessary that federal fiscal legislation

7 be conceived taking into account the civil law of

8 the Province of Quebec, without which there is a risk

9 of doing wrong to an important part of the people of

10 Canada. In fact, in the past no account was taken

11 of this particular situation of the two judicial

12 systems, and many examples will illustrate how

13 citizens have been penalized because there was no

14 account taken of the incidence of the French civil

15 law.

16 Any tax on gifts, transactions between

17 husband and wife among other things, represent for

18 all the taxpayers of the Province of Quebec a much

19 heavier burden. The situation is inconceivable and

20 unacceptable. The problem of estate tax is also

21 closely tied in with the legal system

22 COMMISSIONER BEAUVAIS: Mr. Caron, I have

23 no question to put on this second principle, but I

24 do feel that our Commission must take that into

25 account.

26 THE CHAIRMAN: Mr. Chairman, I would like

27 to raise the matter of the taxation of the family.

28 It seems to me that Canadians as a whole have the

29 right to look to this province to lead it into a

30 suitable solution, just as has occurred in the United



E-8 1 States. Whether the solution is split incomes, or
2 adding incomes together, or the way it is now, I don't
3 know, but these gentlemen tell us it is unsatisfactory
4 now. I think I share their view, and I hope that
5 they will come forward and give us a solution to the
6 Income Tax aspect of this. I know well that
7 there are many different ways of proceeding. There
8 are a number of studies that have been made, not by
9 us, but in other countries, and I think there are
10 some in Canada, but in my view this area needs to be
11 considered most carefully.

12 I am under the impression that we are not
13 particularly out of line with the civil code law
14 of the Province of Quebec in relation to the taxation
15 of estates. Might I ask if my understanding is
16 incorrect?

17 MR. CARON: Would you repeat your question, Mr.
18 Carter?

19 THE CHAIRMAN: Under your second principle
20 you draw attention to the civil law of the Province
21 of Quebec and the matter of taxation both as to income
22 and estates. I can certainly understand that we
23 don't tax income in accordance with community of
24 property, but I thought that the taxation by the
25 federal government of estates recognized the rights
26 of the different spouses, as established under Quebec
27 law.

28 Am I not correct on that?

29 MR. CARON: I think what we have in mind here
30 is that there is in the civil code some obstacles. For



1 instance, you don't have the right to make a donation,
2 or gift to your wife at any time. The Income Tax
3 allows some of these transactions between husband and
4 wife which our civil code prevents, so there are some
5 advantages occasionally which a taxpayer who is not
6 under the French civil code can have, whereas we are
7 prevented from such transactions. Also there is the
8 whole question of the community of goods. Those
9 are differences which can cause great prejudices.

10 The other point you raised in connection
11 with the estates, our civil code establishes what
12 estates should be, whereas the federal Act establishes
13 another point of view, which does not take into
14 account our French civil code. This gives rise to
15 another difficulty, and we believe this, by nature,
16 will cause obstacles to the taxpayer.

17 COMMISSIONER BEAUVAIS: On this score, Mr.
18 Caron, you say that there are certain advantages
19 which are given under federal legislation of
20 which we in the Province of Quebec cannot avail
21 ourselves. That is a fact. However, say we
22 take an example, and I have reference here to the
23 Income Tax Act. You can give a gift to your
24 wife of \$10,000.00. However, that is no concern
25 of federal legislation, if the people of the Province
26 of Quebec can't take advantage of that. It is due to
27 the civil code of the Province of Quebec. We can't
28 deprive the 9 other provinces.

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1 MR. CARON: As for ourselves, the laws
2 of our country should respect our provincial laws.

3 COMMISSIONER BEAUVAIS: We have two
4 systems, of course; we have the civil law and we have
5 the common law. If the government wants to give an
6 advantage, can it be criticized that this advantage
7 does not apply to people of this province?

8 MR. CARON: We feel penalized, because
9 they should treat all people the same.

10 COMMISSIONER BEAUVAIS: Of course, and
11 as far as the succession duties are concerned, we
12 very much would like to have some examples, if you are
13 submitting a final brief, because it has to do with
14 the community of property. In the Province of Quebec
15 there is a marriage contract. This is respected, but
16 there are many examples. Could you give some
17 examples in your final brief?

18 MR. CARON: Yes. I would like Mr. Duval
19 to deal with this matter briefly,

20 Mr. Duval, as well as Mr. McLaughlin.

21 MR. GIRARDIN: Mr. Chairman, someone asked
22 if we had some suggestions to put forward. At the
23 present time we have limited ourselves to two points.
24 But the matter of taxation is greater than that.
25 For instance, the Canada Evidence Act can even be
26 different and can be applied in such a way that
27 established proof is not receivable or acceptable in
28 another province.

29 There is one suggestion here that I could
30 make, since we are dealing here with statutory law,



1 and that is, should it not be possible to say that
2 for the purposes of federal consideration only that
3 such interpretation would be deemed to be such and such
4 so that the Quebec individual could be taught
5 a principle which is valid under common law. If our
6 own legislation deprives us entirely from certain
7 benefits, well and good, but the federal government
8 cannot do that. As was said recently, would there
9 be an advantage in a system where the federal government
10 wanted to take everything and in which the taxpayer
11 of the Province of Quebec was not being treated as
12 he was in another province?

13 MR. McLAUGHLIN: Mr. Chairman, first of
14 all, I am a bit astonished by the concept that
15 the civil code should be presented to the federal fiscal
16 laws. We have two different codes in Canada and it is
17 up to the legislature to institute law adapted to each
18 particular area or province of the country. Here is
19 a case, for example, in the case of tax^{on}/gifts. You
20 know that in Quebec gifts are not allowed between spouses.
21 The only ones allowed are those put in a marriage
22 contract. The gift is taxable in the year of the
23 marriage contract. It is a discrimination against people
24 in the Province of Quebec. A person who has a clause
25 in his marriage contract to give \$25,000 to his wife
26 is taxed in the marriage year, whereas in another province
27 this will not be taxable.

28 Again, as regards transfers between husband
29 and wife, in 1958 an exemption was introduced in the
30 Income Tax Act allowing the transfer, once in a lifetime,



1 of property not exceeding \$25,000. Anyone in Quebec
2 married before 1958 cannot take advantage of that,
3 because of an Act in our civil code. This is an un-
4 acceptable situation.

5 COMMISSIONER BEAUVAIS: Now, with regard
6 to your first example, Mr. McLaughlin, you say that
7 the tax should be paid in the year in which the
8 marriage contract is signed.

9 MR. McLAUGHLIN: There is a decision
10 to the effect that the actual transfer made over a
11 period of years are gifts made in the marriage under
12 the civil code. This is an intolerable situation.
13 I can't remember exactly who rendered the decision,
14 but it was a decision made by the Income Tax Appeal
15 Board, I believe, Horton versus the Income Tax Appeal
16 Board.

17 MR. CARON: Mr. Grondin, who has a great
18 deal of these matters of transfer of property and
19 administration of estates was entirely in accord with
20 the principle we put forward on this point. If the
21 Commission wants additional examples, we could make a
22 whole book of all the points, because we feel we are
23 on very solid ground here and we feel that this point
24 should be recognized.

25 MR. GRONDIN: Mr. Commissioner, when a wife
26 takes out insurance on her husband's life in the
27 Province of Quebec the wife should have personal property
28 to pay the premium. The Province of Quebec, however,
29 will not recognize for the purpose of succession duties
30 that it is an exemption from income tax, whereas the



1 federal government will. So we have to make a separate
2 return for Ottawa. There appears to be conflict on this
3 point. The federal government will not recognize
4 something which is in the Quebec Civil Code.

5 COMMISSIONER BEAUVAIS: Do you feel that
6 if I have a \$10,000 policy on my life which my wife
7 has, and if I die, that Ottawa will admit it as non-
8 taxable in Quebec?

9 ME. GRONDIN: It will be taxed because
10 your wife did not have the means of paying the premiums.

11 COMMISSIONER BEAUVAIS: Would you be so
12 kind to explain how this would prejudice a Quebec
13 taxpayer? Do you mean that Quebec would benefit from
14 something which is not available to other provinces.

15 MR. GRONDIN: It is not available to the
16 Quebec taxpayer. Nevertheless, this is against our
17 laws, merely from the legal point of view.

18 COMMISSIONER GRANT: May I make an
19 observation? The Act as it is now framed and as it
20 is administered gives a credit of 50 per cent of the
21 amount of the tax which the federal government would
22 have collected on those assets which are situated
23 in a province which is still in the succession duties
24 field. Now, in that respect they are treating all
25 provinces the same, they are not telling any province
26 which is still in the succession duties field what it
27 should do with respect to its succession duties, what
28 exemptions they should have, what they should collect.
29 Perhaps it is by ignorance, but it seems to me to be
30 a "hands off" policy and it could be, I think, one that



1 has the elements of fairness.

2 MR. CARON: Well, the thing that comes
3 to my mind, Mr. Grant, is that the Succession Duty
4 Act was passed 30 or 40 years ago and will tell people
5 how the estate will be made out, whereas we have a
6 law of 200 or 250 years which tells us how it should
7 be made. Your code states what your succession duties
8 should be, and now we come to our Succession Duty Act
9 which says how it should be. There are therefore two
10 types of estates, the one established by the federal
11 government and the one established for 250 years by
12 provincial code. So people have to conform to these
13 two in the province, according to the civil code and
14 according to the federal government.

15 COMMISSIONER BEAUVAIS: ^{Ontario} Is the Succession
16 Duty Act different from Quebec legislation?

17 MR. McLAUGHLIN: Yes, the federal thing
18 is called the Estate Tax Act, whereas in Ontario we
19 have a Succession Duty Act which is rather similar to
20 the one in Quebec. But I would like to return to the
21 question put for a moment. I feel that it is rather
22 disconcerting, in fact, quite disconcerting, to hear
23 it said that the civil code should be adapted to
24 fiscal provisions. The opposite is true. In a
25 federal state such as ours, the federal government should
26 always attempt to remember the fiscal consequences
27 of statutory law in order to respect equity and justice
28 despite the difference in the systems, legislative
29 systems.

30 MR. CARON: We, in fact, return to that



1 matter when we are dealing with our principles. We
2 can, in fact, deal with that later. This was spelled
3 out in our brief. We have specific propositions or
4 proposals to put forward with regard to the fiscal
5 propositions.

6 Then the third principle:

7 (French -- Pages 6 and 7 of the brief
8 of the Chamber of Commerce, District
9 of Montreal)

10 COMMISSIONER BEAUVAIS: You have no
11 suggestions to make on that? What is the vital
12 minimum?
13

14 MR. CARON: We would need an economic study
15 to establish this.

16 MR. BEAUVAIS: Do you believe in your
17 final brief you will be able to deal with this point?

18 MR. CARON: I don't believe we can carry
19 out economic studies which the Commission can carry
20 out itself, but we can state that the basic exemption
21 system is not sufficient but only that which is
22 necessary to maintain life, and we believe there should
23 be some type of index. We have a brief presented
24 by the Chamber; in fact, we could send copies of this
25 brief to you. This is a very detailed study, but it
26 goes back to 1947. There is nothing new under the sun,
27 because this is still being dealt with in 1963.

28 COMMISSIONER BEAUVAIS: Of course, we
29 shouldn't consider the personal exemptions as ensuring
30 the living of a family, because you may find out that



1 \$2,000 was the same as granted 20 years ago, but the
2 conditions have changed a great deal.

3 MR. CARON: As you know, Mr. Chairman, the
4 family is a very important society to French Canadians,
5 and that is why we feel it is necessary to establish
6 a vital minimum, a minimum which is necessary to life
7 and is a very important matter indeed.

8 THE CHAIRMAN: Mr. President, I think we
9 are going to get guidance, as you say, Mr. Caron, from
10 the Province of Quebec. But on this matter of
11 exemptions it would seem to me that this study would
12 be a very difficult matter indeed, and certainly
13 assessments of levels throughout this land vary
14 considerably and I am very uncertain whether that is
15 a realistic test for income tax.

16 It is certainly something to be considered,
17 of course.

18 MR. CARON: Yes, except that it concerns
19 the bulk of the population. Perhaps the others would
20 be better off. In the heavily populated areas,
21 Montreal, possibly Vancouver or Winnipeg, people are
22 protected, they provide a basis where people are given
23 comfort more than perhaps they need. It is an important
24 matter but a difficult one, admittedly, in order to
25 provide uniformity in Canada.

26 COMMISSIONER BEAUVAIS: Perhaps the best
27 index is the salaried people whose cost of living is
28 about the same.

29

30



1 MR. DUVAL: We will admit that this was one
2 of the most difficult problems we have had to examine.
3 We can understand the position in which the
4 Commissioners find themselves; we have to maintain income.
5 Now, the biggest difficulty here in this subsistence
6 level is that if we go too far there is no income left.
7 That is the biggest difficulty. However, it doesn't
8 change the principle but it is a very difficult
9 matter to resolve.

10 COMMISSIONER BEAUVAIS: Indeed, because
11 if you change the level, then you change the revenue
12 considerably.

13 MR. CARON: The D.B.S. figures in this
14 respect would indicate, I think, some useful information.
15 I think a lot could be done with these figures which
16 hasn't been done in the past.

17 MR. McLAUGHLIN: One thing I would like
18 to add is that all our recommendations are made in
19 the context of a greater emphasis on taxes on consumption
20 rather than taxes on production. In the context, the
21 small salaried person has to pay higher taxes on
22 consumption because of the shift of emphasis. Of
23 course, there should be an increase in exemption. There
24 should not be necessarily a complete transfer, but
25 there should be a shift of emphasis towards taxation
26 on consumption rather than on production.

27 COMMISSIONER BEAUVAIS: You will be dealing
28 with this a little further when you are dealing with
29 sales tax?

30 MR. CARON: The fifth principle:



1 (Reads in French from brief of the
2 Canadian Chamber of Commerce, District of
3 Montreal, page 8).

4 COMMISSIONER BEAUVAIS: Obviously when you
5 state here more than 50 per cent of his income, you
6 don't mean a graduated income with more than a maximum
7 rate of 50 per cent, because to pay 50 per cent
8 you have to earn more than \$100,000. This is a very
9 unusual figure. There are not more than 500 or 520
10 persons in Canada whose taxable income is \$100,000.
11 We really should say a maximum percentage.

12 MR. CARON: Yes, we feel it should
13 progressively increase to a maximum of 50 per cent.

14 COMMISSIONER BEAUVAIS: Why 50 per cent?
15 Have you got a special reason?

16 MR. McLAUGHLIN: Well, if I may answer that
17 question, Mr. Chairman, it is quite arbitrary. We have
18 made no economic study, we haven't got the facilities
19 to make study on that, but we believe -- and this
20 may be psychological -- that where there is a situation
21 that out of every marginal or excess revenue has to
22 be shared with 50 per cent or more with the government,
23 the situation has gone far enough.

24 COMMISSIONER BEAUVAIS: You say you have
25 examined four possible solutions, and you have mentioned
26 that a rate should be maintained for this principle
27 and that the maximum rate should not be more than 50
28 per cent.

29 MR. CARON: Yes.
30



1 COMMISSIONER PERRY: I think you probably
2 have some views where that 50 per cent should apply,
3 because if one looks back to the schedule which was
4 in effect in wartime, my recollection is that it
5 applies at about \$5,000, and I assume that this is what
6 you had in mind?

7 MR. McLAUGHLIN: We didn't like to put
8 forward specific suggestions because of the lack of
9 research on the position. We preferred leaving it
10 to the Commission to recommend the progressive increase
11 which would be proper in the situation. But I don't
12 feel that the 50 per cent should apply to a small
13 income; we should have a progressive increase in rates.
14 But if we set it at \$10,000, this would be going from
15 the frying pan into the fire.

16 MR. GIRARDIN: Without generalizing --
17 I am an accountant -- when you say to a taxpayer that
18 he has got to pay about 50 per cent above a certain sum
19 his initiative ends very abruptly. We can feel it.
20 To give you precise cases, if a person says he can
21 earn so much in a year and spread it over several years
22 instead of in a given year, because he is told when it
23 goes beyond 50 per cent every year, well, he won't do it.

24 MR. CARON: The economic incidence aspect.

25 (French -- From the brief of the Canadian
26 Chamber of Commerce, District of Montreal,
27 page 9 and first paragraph on page 10).

28 COMMISSIONER BEAUVAIS: In (a) you probably
29 mean to say that increasing tax credit given at the
30 present time so as to encourage Canadian investing in



1 Canadian companies?

2 MR. CARON: Yes, that is increasing the
3 present formula and probably finding another one
4 which would reach the same end.

5 COMMISSIONER BEAUVAIS: As you say here,
6 there would be a risk of there being some inequality
7 to some taxpayers.

8 MR. CARON: Yes. Well, this would be a
9 problem. This would be a problem in the form of
10 dividends as to people who have other incomes, and so
11 on. Anyone who would get an investment income would
12 be prejudiced. That is why we said there would be
13 need of some corrections elsewhere.

14 COMMISSIONER BEAUVAIS: We must recognize,
15 however, that the person who receives a dividend
16 receives only part of the actual profits made by the
17 corporation which have already been taxed.

18 MR. CARON: This is our idea of double
19 taxation.

20 MR. McLAUGHLIN: Mr. Chairman, we had two
21 objectives in putting forward this recommendation.
22 First, the economic objective. The economic objective
23 was that we recognized, firstly, that Canadian industry
24 is largely foreign-owned, and we believe it is highly
25 desirable that we are going to encourage savings in
26 Canada.

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"G" 1 Such being the case, we feel that if we
AG/bg 2 had a complete exemption of dividends for the purposes
3 of taxation -- now I am dealing here with personal
4 opinions of my own -- if there was a complete exemption
5 of taxation on dividends we would be encouraging
6 accumulation of savings and formation of capital.
7 These savings and capital would be used for
8 desirable economic needs, which would be an increase
9 in Canadian proportion of ownership.

10 There are also technical aspects of this.
11 You know how the Income Tax Act is so complicated with
12 regard to double taxation on corporation profits.
13 In fact, we could set up a whole list of two or
14 three pages with all sections of the Act which would
15 demonstrate clearly that double taxation exists. We
16 feel that such a recommendation, if carried out,
17 would eliminate the most complex provisions of the
18 Act with regard to corporation income tax on
19 undistributed profits. Special taxes on mining
20 surpluses, and so on, all the problems of what we
21 call in English dividend living.

22 We are aiming for two objectives, one
23 economic and one technical.

24 COMMISSIONER BEAUVAIS: I don't think that
25 the suggestion mentioned in (b) could avoid what you
26 mention, but do you think that if the tax on profits
27 were eliminated you would suppress all these problems?

28 MR. McLAUGHLIN: I am sorry Mr. Chairman,
29 but personally I am convinced that we would eliminate
30 all these problems if dividends were not taxed.



G-2 1 COMMISSIONER BEAUVAIS: There would be
2 some discrimination towards others, who get their
3 income from properties, from bonds, and so on. It
4 would be one of the means of financing our undertakings.
5 Of course, no one would buy bonds if they were taxed,
6 even at the rate of 50 per cent, as mentioned in your
7 brief, whereas if they buy equity they wouldn't pay
8 income tax. Would that not be radical?

9 MR. McLAUGHLIN: We are a little worried about
10 that aspect, but we are wondering whether in the
11 present context it is not urgent to think of the good
12 of the whole, rather than concerning ourselves with
13 the matter of equity in a few personal cases.

14 COMMISSIONER BEAUVAIS: I don't know if the
15 fact of investing 20 per cent of tax credit, which
16 would probably include double taxation to a certain
17 extent, but I don't know what the results were, inasmuch
18 as that encouraged Canadian investors to invest in
19 equity in Canadian companies. Of course if we abolish
20 the tax on dividends, this surely would be a great
21 attraction for Canadians to invest.

22 MR. McLAUGHLIN: The simplicity of legislation
23 is really something. We would eliminate all those
24 most complicated sections of the Act on double
25 taxation with respect to individuals. We would, of
26 course, entertain the taxation of dividends paid by
27 non-residents of Canada, but we could, I believe,
28 control this matter of payment of dividends in devious
29 ways by retaining sections 81 and 82, and also those
30 provisions in respect of payment of dividends to non-



G-3 1 residents.
2 MR. CAMIRAND: What Mr. McLaughlin just
3 pointed out was his own personal point of view, and
4 he pointed out that this was not necessarily the point
5 of view of everyone. I might say that we have
6 recognized indeed that the whole problem was a very
7 complex problem. The first question that we asked
8 ourselves was to know if there was double taxation,
9 because some said that the tax of corporations was
10 not really taxation, or a direct taxation, because this
11 tax could be transferred more or less to the consumer.
12 On the other hand, when you see the small enterprise,
13 you find that the corporation income tax, whether
14 it be a small personal enterprise it becomes a direct
15 tax, because the facilities of transferring the tax
16 burden to the consumer are now more difficult. It
17 seems to us that in the large corporation the contrary
18 is true. That is that they can transfer relatively
19 easily the burden of taxes onto the consumer especially.
20 When you deal with monopolies, or great, great
21 corporations ---

22 COMMISSIONER BEAUVAIS: We must admit that
23 the price of a product is to a certain extent controlled
24 by competition, when there is competition.

25 MR. CAMIRAND: I will agree that in this
26 case it can't be passed out easily to the consumer, but
27 the next year in due course, being an intermediate
28 organization between the consumer and the producer, or
29 call him the shareholder if you like, and in that
30 case the function of the institution, and it is



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1 profit making, would be normal.

2 MR. CARON: That is why in this recommendation
3 we desire to see what is being done on this point to
4 encourage investment by Canadians, and also to amplify
5 the Act, and of course we are submitting two alternatives.
6 We have to consider the other taxpayers, because of
7 course there would be some inequities.

8 Mr. McLAUGHLIN: One last point, Mr. Chairman,
9 speaking as a practical man, you are probably wondering
10 what this is going to cost. This would cost \$45
11 million, a complete exemption of tax on dividends in
12 the case of Canadians.

13 COMMISSIONER BEAUVAIS: On this point do
14 you suggest that the 15 per cent held at the source
15 as regards the dividends to foreigners be eliminated?

16 MR. McLAUGHLIN: No. This would be only
17 for residents of Canada, so as to encourage them to
18 invest in Canadian undertakings.

19 MR. CARON: Or recover ownership of our own
20 concerns.

21 COMMISSIONER BEAUVAIS: Now, with regard to
22 this last point, do you feel that capital gains should
23 be taxed or that there should be no capital gains
24 tax?

25 MR. CARON: If you can establish a definition,
26 this would help everybody, because, as you know, people
27 are very concerned, and it is not good that the tax
28 system leaves people in doubt as regards transactions.
29 There should be some clearer definition, so that
30 people know they will be taxable when they carry on



G-5 1 some transactions. People have to go through all
2 sorts of gymnastics in their transactions to avoid
3 taxation.

4 MR. DUVAL: I personally would prefer not
5 to have any definition, because to protect itself the
6 Department will have to have so many definitions, and
7 the first thing you know is that there will be a
8 capital gains tax. There will be so many restrictions
9 that there will definitely in due course be a capital
10 gains tax. At this point I would much prefer to
11 let the judge decide.

12 MR. CARON: According to the Chamber the
13 corporate income tax is far too high. It should be
14 reduced. At this stage these various firms should
15 be divided into groups, those which are in a monopoly,
16 or quasi-monopoly situation, and too, those who are
17 in a competitive position. In the case of monopolies
18 and quasi-monopolies, the transfer of taxation to
19 the consumer will be carried out. In the position of
20 competition this transfer of taxation to the consumer
21 will be only partial.

22 A uniform rate, which is not accompanied by
23 administrative complications, will work against those
24 firms which are in a competitive position. In so far
25 as it is passed on to the consumer, this impost is
26 passed on to the consumer, this impost is disguised
27 as sales tax. It is bad taxation because it strikes
28 all consumers. For instance, in respect to food,
29 it penalizes the efficient producers.

30 Finally (b), the Chamber favours all those



G-6

1 stimuli which are to the advantage of an industry.
2 With small and medium size firms an exaggerated rate
3 of taxation does not allow them to accumulate enough
4 capital to compete with larger ones. We feel that
5 it is preferable to allow them to accumulate capital.
6 In this respect a uniform rate is a problem. We
7 must find some formula to enable small and medium
8 sized firms to retain those benefits already acquired
9 by them.

10 COMMISSIONER BEAUVAIS: This means then that
11 the Chamber would be in favour of reducing the rate
12 of taxation on corporate income?

13 MR. CARON: It would be in favour of stimulants
14 being provided in the Income Tax Act so as to encourage
15 industrial activity and expansion.

16 COMMISSIONER BEAUVAIS: Do you believe that
17 taxing the first \$35,000.00 at a reduced^{rate}/is sufficient
18 to help the small undertakings?

19 MR. CARON: This may not be enough for the
20 medium enterprises.

21 COMMISSIONER BEAUVAIS: So you think it should
22 be kept?

23 MR. CARON: It is already one way of allowing
24 the accumulation of capital, but we don't think it is
25 sufficient.

26 MR. McLAUGHLIN: Mr. Chairman, in discussing
27 this recommendation we came to the conclusion that
28 there would be very real benefits in establishing
29 a uniform rate of corporation income tax. Speaking
30 again as a technician. We would therefore be in a



G-7 1 position to remove all those sections of the Act which
2 are extremely complex. We have made no recommendation
3 in this area of small firms, but I think any corporation
4 could elect to be taxed either at the corporate or
5 the personal income tax rate, especially in the case
6 of small firms. Of course, there is a connection
7 between this recommendation and our first one, the
8 dividends being exempt. It won't matter particularly
9 which way they pay, as long as they pay them. This is
10 not in our brief, but I think that we should mention
11 that we did come to our conclusions in this way.

12 COMMISSIONER BEAUVAIS: You are suggesting
13 a choice to be taxed as a corporation or as an
14 associate or as an individual.

15 COMMISSIONER PERRY : There are two or three
16 uses of words in your brief, which to my mind imply
17 one rate of corporation tax, that is if you abandon
18 the reduced rate. First of all you use the expression
19 a standard rate, and later on you refer to a single
20 rate. I am misreading this apparently. You do intend
21 that the two rates be retained?

22 MR. CARON: Oh, yes. We bring forward the
23 advantage of a uniform rate, but also the disadvantages.
24 The disadvantages are set out here, because we want
25 to demonstrate that this is not the ideal solution.
26 We are dealing with the matter in an indirect way.

27 MR. McLAUGHLIN: I might add that that is
28 not quite right. The content of our recommendation is
29 that we wish a standard rate, and I don't want to
30 commit the responsibility of the Chamber, but I think



G-8 1 it is right to say that we wish a uniform standard
2 rate, if it is possible, while maintaining the
3 privileges of small enterprises. It is not a
4 recommendation, but a possibility we have considered
5 to have the corporations elect to be taxed one way
6 or the other.

7 COMMISSIONER PERRY: To be facetious, you
8 are saying you would want a standard rate if it were
9 at 21 per cent.

10 MR. CARON: The Estates Tax Act, the ninth
11 principle. The Chamber suggests the removal of the
12 federal Estates Tax Act, and taxing of gifts. This
13 involves very little income to the federal government,
14 and has a great deal of incidence on property rights,
15 more than any other form of taxation. In this way
16 the Estates Tax Act and taxation of gifts should come
17 under provincial jurisdiction only.

18 COMMISSIONER BEAUVAIS: Do you not believe
19 that if the federal government relinquishes the estate
20 tax immediately the provinces will take it up? That
21 is to say, they will increase their succession duties
22 by as much?

23 MR. CARON: This is a matter of jurisdiction
24 in our case, and not a question of the amount to be
25 paid. The federal government is not in its field of
26 jurisdiction. It is provincial jurisdiction, and it
27 should be kept.

28 COMMISSIONER BEAUVAIS: You are speaking
29 from the historical point of view?

30 MR. CARON: We are speaking from the point of



G-9 1 view of principles and jurisdiction.

2 COMMISSIONER BEAUVAIS: Do you state that the
3 federal government has not the right to tax estates?

4 MR. CARON: We feel that under the
5 principles of the B.N.A. Act that this is a provincial
6 right, and it should be returned to the provinces and
7 exercised exclusively by them.

8 MR. McLAUGHLIN: In the discussions over
9 this recommendation we have always recognized the
10 constitutionality of the federal government in the field
11 of estate tax. We have mentioned at the beginning of
12 our brief the conflict between the two judicial systems,
13 that of the Province of Quebec and that of the other
14 provinces. In our opinion these taxes are too
15 closely related with civil rights and party rights,
16 that they are so close to it that they should not be
17 imposed by the federal government.

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1 MR. McLAUGHLIN: We can come to no other
2 conclusion that there is only one solution, and that
3 is an exclusive application of such taxes by the
4 provincial governments.

5 COMMISSIONER BEAUVAIS: It is probably for
6 this reason that you are suggesting no amendment
7 to that Act, no amendment to the Estates Tax Act.
8 It is for that reason.

9 MR. McLAUGHLIN: Right.

10 MR. DUVAL: Mr. Chairman, there are two
11 points to add to what has been said by Mr. McLaughlin.
12 First, from the economic point of view the total
13 sum involved is a mere \$70 million. If you think
14 of the conflicts that this matter gives rise to I
15 think we can say from a technical point of view that
16 the federal government has been using that through
17 the act of previous income tax declarations. That
18 is a purely technical matter. If we are told that
19 an Estate Tax Act must be retained absolutely by the
20 federal government purely through taxation, this is
21 merely a secondary matter. We could also say that
22 the federal government could have in its income tax
23 statement a copy of the statement given to the
24 provincial government.

25 COMMISSIONER BEAUVAIS: Don't you think at
26 the present time the federal government and the
27 provinces exchange information?

28 MR. DUVAL: Yes, at the present time they
29 do exchange information. The Minister has often said
30 in the House that he cannot list the income but he



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1 has a measure of control. I think it is some way
2 to control the valuation and the value of estates
3 without having to tax them.

4 MR. McLAUGHLIN: Now, indirect taxes:

5 (Reads in French)

6 COMMISSIONER BEAUVAIS: When you say that
7 the Chamber thinks that a double collection adds to
8 the cost, do you suggest that this tax be collected or
9 abolished by the federal government or by the
10 provinces?

11 MR. CARON: We feel it should be possible
12 to find a formula in which there should be an avoidance
13 of duplication. It may be a matter of compromise
14 by the federal government; someone may have to give
15 something, but maintaining a double tax imposes a
16 heavy burden on the taxpayer and it is not desirable.

17 COMMISSIONER BEAUVAIS: Do I understand,
18 when you are speaking of duplication, you would prefer
19 a centralization of tax collection?

20 MR. CARON: It is difficult to find a
21 solution, but the provincial government might leave
22 some function to the federal government or vice
23 versa. There may be some rights to preserve;
24 one government might receive one report, the two
25 receiving the same report, and so on.

26 COMMISSIONER BEAUVAIS: Have you not some
27 doubts that some provinces like Ontario and Quebec
28 would resist before leaving their rights?

29 MR. CARON: Mr. Chairman, I have no solution
30 to provide in this respect. Say the provincial



1 government let the sales tax go to the federal
2 government. We are speaking of renouncing a system
3 of legislation and not the tax itself. Perhaps the
4 provinces would give up the levying of income tax.

5 Say that each authority remains on its position.
6 Perhaps there may be a change in legislation; the
7 provincial government states what the provincial tax
8 would be, the federal government states what the
9 income tax would be. But this makes for duplication and
10 it does make for increased taxation on the taxpayer.

11 COMMISSIONER BEAUVAIS: But your main point
12 is that, you say, throughout your brief you have
13 made suggestions which would mean a reduction of the
14 national revenue. We have to find some taxes or
15 some means of compensating this loss in revenue. In
16 your opinion, should the present sales tax be
17 collected at the level of the retailer which would
18 bring in an amount to compensate the loss of revenue?

19 MR. CARON: Yes, there would be two sales
20 taxes at the same level, one federal government and
21 one provincial government as you have two income
22 taxes.

23 THE CHAIRMAN: Mr. President, this is a
24 matter of importance and of necessity, that if both
25 federal and provincial sales taxes can be levied
26 at the retail level, can the Act be made uniform.
27 Now, I think there is an essential difference between
28 the Quebec Act and in the other provinces which
29 relates to the difference between the common law and
30 the Civil Code. Now, it may not be a difference



H-4 1 which cannot be reconciled, but are you aware of
2 anything of significance which would make the
3 bringing together of the sales tax laws difficult?

4 MR. McLAUGHLIN: Mr. Chairman, this is a
5 field which is not quite the same as succession duties
6 but it is in very close relation to property rights.
7 In relation to sales tax, there may be minor
8 differences, but I don't think the Civil Code would
9 provide any major obstacle. There wouldn't be any
10 major difficulty.

11 There is one suggestion which we could put
12 forward, however, and that is a suggestion which was
13 recently put forward by a director of the Canadian
14 Tax Foundation in an article last fall in which he
15 was wondering whether provinces could not more easily
16 retain the services of the federal government as a
17 levying agent as long as the federal government was
18 ready to return the services of collection agents
19 in other fields. Now, it has been said that it
20 should be made uniform. This shouldn't be too new
21 a topic, because it has been already said that
22 Ontario and Quebec are in serious negotiation to
23 prevent tax evasion in the area of sales tax over
24 the Ontario-Quebec border. It seems to me that
25 a quid pro quo could be made here. I think
26 we should respect the sensibilities of the Quebec
27 Income Tax Act.

28 COMMISSIONER WALLS: With the increased
29 emphasis on consumer taxes, earlier you stated that
30 you would have exemptions in order to increase the



H-5 1 income flow to families. As you are aware, we have
2 a very large list of exemptions at the present time.
3 What groups of purchases have you envisaged as
4 being further exempted and still assure us of getting
5 increased revenue from increased taxation?

6 MR. McLAUGHLIN: We feel that the sales
7 tax at the retail level should replace loss of revenue
8 envisaged. There is one possibility which I
9 envisage, and that is this. If we were to limit
10 exemption with regard to retail taxes strictly to
11 vital necessities such as food and hospital services,
12 and so on, and if the sales tax would be extended to
13 the tertiary sector, the service sector, this would
14 be a bad form of taxation indeed. I feel that, at
15 the outset, when we speak of this, we speak of
16 reduction because, after all, the taxpayer should not
17 be trodden underfoot, at least at the income tax level.

18 COMMISSIONER WALLS: In the tax as we have
19 it now at the manufacturers' level, any relative tax
20 would not have to be increased in order to give greater
21 revenue?

22 MR. CARON: That may be, if it were brought
23 to the retail level rather than the manufacturers'
24 level. Of course, I haven't checked this, and it may
25 not be easy to check, but it may be said that a retail
26 sales tax, one-half of that should produce about twice
27 as much with about half the rate at the manufacturers'
28 level. But it certainly would bring in more revenue
29 at the manufacturers' level. If we were going to
30 reduce exemptions to basic services, it would bring in a



1 lot more revenue, that is services such as food and
2 hospital services, which are a way of life.

3 MR. CARON: I think we should not speculate
4 in the field of taxation.

5 COMMISSIONER BEAUVAIS: Mr. Caron, wouldn't
6 this type of taxation be a little close to the added
7 value taxation? At the retail sales level you have
8 wages, services, and so on.

9 MR. CARON: Yes.

10 COMMISSIONER PERRY: I would just like to
11 say that, looking very carefully at what is involved
12 in the changes you are proposing, the cost of what
13 would seem even a minor change in income tax would
14 be astonishing in the matter of revenue. One could
15 easily use up a billion dollars, and to take care of
16 this would involve a very great increase in sales tax.
17 You are really suggesting quite substantial shifts
18 of revenue here.

19 MR. CARON: We have not studied the intensity
20 of reductions or changes in these figures because it is
21 a very complex matter indeed. But we would like to
22 obtain these results within the total amount of income
23 that the federal government must have.

24 (French -- Reads from brief of the
25 Canadian Chamber of Commerce, District of
26 Montreal)

27 COMMISSIONER BEAUVAIS: Stopping there,
28 you begin by saying that the existence of certain
29 excise taxes appears to be justified. You have no
30 examples to produce in this connection, have you? What



1 excise taxes, for example, in your opinion would be
2 justified?

3 MR. CARON: The brief quotes no examples
4 because we would have had to go to a considerable
5 length, but we can certainly produce a lot of examples.

6 MR. McLAUGHLIN: The idea is not to give
7 an example. We merely suggest that some excise taxes
8 should be selective, in the case of some products
9 which the government would like to encourage manufacture
10 in Canada, and so on. Nevertheless, I think we
11 can recognize the justification of some excise taxes,
12 tobacco, for instance, cosmetics, and so on.

13 COMMISSIONER BEAUVAIS: I am putting the
14 question just for the purpose of general guidance.
15 What is a luxury product? That is a matter of opinion,
16 because some people have explained to us that toothpaste
17 for instance, bears an excise tax, whereas toothbrushes
18 don't. In fact, we could revise the whole list,
19 As you say, in such cases as alcohol and beverages
20 that may be justified. It is just an extra sales
21 tax.

22 COMMISSIONER WALLS: The question I do
23 want to ask is with your reference to luxury trade. Do
24 I take it from that that you interpret those products on
25 which we should have an excise sales tax, should
26 be classed as luxuries? We have had representations
27 that many of the products subject to excise tax
28 are today not luxuries. If you are going
29 to place tax on luxuries, can you tell us how you
30



1 are going to define a luxury?

2 MR. DUVAL: Mr. Chairman, in this matter
3 we have concerned ourselves with the incidence of
4 customs duties generally speaking. However, we have
5 insisted more particularly on income tax.

6 I return to one of the recommendations put
7 to you here. We still say that the general level is
8 not all that bad, so when we are dealing with this
9 matter we don't have any particular suggestion to put
10 forward, any particular change to the order of things.
11 As a matter of fact, we are not concerned with
12 insisting more on excise tax than anything else. There
13 is nothing too particular we have to suggest in this
14 regard.

15 MR. McLAUGHLIN: We would not favour a
16 system where essential goods would be further taxed.

17 COMMISSIONER BEAUVAIS: Generally speaking,
18 you are of the opinion our taxation system in Canada
19 is good?

20 MR. DUVAL: We don't want to change every-
21 thing. It may be too complex, though.

22 COMMISSIONER GRANT: I would like to say one
23 thing before we adjourn, and that is with regard to the
24 Estate Tax Act. The figure you mentioned this morning
25 as being the revenue derived from that source, I believe,
26 was \$60 million.

27 MR. DUVAL: I thought I said \$75 million. It
28 could be. It is from \$70 million to \$80 million. But
29 it just happened that you know somebody rich who died.
30 But take it as an average. You will find it very low.



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1 And we have in the last few years two very rich or
2 wealthy men who died and which changed the whole of the
3 income or revenue from that.

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1 COMMISSIONER GRANT: According to the
2 study made by the Canadian Tax Foundation on the
3 national finances, they estimated the revenue from
4 this source for the year 1962 to 1963 will be \$90
5 million.

6 COMMISSIONER BEAUVAIS: I believe there is
7 another paragraph, Mr. Caron.

8 MR. CARON: Mr. Chairman, the Chamber
9 recognizes that customs duties are also closely connected
10 with political economy of the country, and conse-
11 quently they may be justified according to circumstances.
12 Accordingly these taxes are important for foreign
13 trade, since they can balance out the foreign payments.
14 The application of these customs duties varies
15 according as to whether it is at a certain time necessary
16 to follow a protectionism or free trade policy.

17 COMMISSIONER BEAUVAIS: You will understand
18 that it is not within our terms of reference to deal
19 with that. We don't have to deal with customs duties,
20 which are a very complex question. Nevertheless, we
21 will take note and examine this question
22 but I wanted to point this out.

23 COMMISSIONER WALLS: Do you think that we
24 ever will have a time when we have a national policy
25 of either free trade or protectionism?

26 MR. CARON: I am glad I don't have to answer
27 your question sir.

28 COMMISSIONER BEAUVAIS: I must first of all
29 say that we are very glad to have received you this
30 morning to discuss these problems which are yours and ours,



1 and I hope that you will submit to us a final brief,
2 which we will study at our fall meetings in Ottawa.

3 Thank you, Mr. Caron and your colleagues
4 also.

5 I must excuse Mr. Carter. He had to be
6 excused because he had an appointment at 12.30,
7 and had to leave ahead of time.

8 MR. CARON: I want to thank you, Mr. Chairman,
9 for your kind reception, and we are grateful to you
10 for having allowed us to submit our representations
11 on behalf of the Chamber of Commerce of the District
12 of Montreal.

13 COMMISSIONER BEAUVAIS: Mr. Secretary,
14 do you have any other items on the agenda?

15 THE SECRETARY: I have, Mr. Chairman, and
16 wish to enter into the record, a brief received
17 from the Association des étudiants de la
18 Faculté des Arts de l'Université de Montreal, as
19 Exhibit No. 28.

20 EXHIBIT NO. 28: Submission of
21 l'Association des
22 étudiants de la
23 Faculté des Arts de
24 l'Université de
25 Montreal.

26 THE SECRETARY: Our hearings reconvene
27 at 9.30 tomorrow morning, Mr. Chairman.

28 COMMISSIONER BEAUVAIS: Our hearing
29 is adjourned.

30 ---Adjournment.



1 course might be to ask our legal adviser, Mr. Stewart,
2 to ask questions. We reserve Mr. Stewart, I might
3 say, for very special occasions. This is the first
4 time Mr. Stewart has appeared in Montreal. We like to
5 conduct these hearings informally, in keeping with
6 getting on with the job. But I think perhaps it is a
7 little easier in an important matter like this to have
8 the main questions directed by one person. That will in
9 no way restrict the Commissioners who will, if they wish,
10 interrupt and generally sound off as they please.

11 Now, Mr. Capon, do you have anything you would
12 like to add to what is before us? Our practice follows
13 two courses: sometimes people appearing speak to their
14 submission. They don't read it, of course, because we
15 have had the opportunity already; and sometimes they
16 prefer that we simply start asking questions.

17 MR. CAPON: Well, Mr. Chairman, I have here some
18 comments on this thought, and it might be helpful if
19 I were to sum up in my own words the total picture as
20 I see it.

21 This is necessarily a lengthy brief,
22 unfortunately, and I sympathize with any body who is
23 going to wade through it, but I thought it might be
24 helpful if I spent maybe ten minutes summarizing it in
25 my own words.

26 THE CHAIRMAN: Good; we would like you to do
27 that.

28 MR. CAPON: The main purpose of this brief, Mr.
29 Chairman, is to urge the elimination of the corporation
30 income tax. I do this not because, as a corporate



1 manager, I want to help my company, but as a Canadian
2 citizen concerned primarily with ensuring the
3 prosperity and general living standards of Canadians.
4 Because it adds seriously to costs, helping to make our
5 products non-competitive, because of its great
6 incentives to inefficiency, and because it causes a
7 growing concentration of wealth, it is a vicious tax.
8 While on the surface it is a tremendous source of
9 government revenue. I believe that mature reflection
10 shows that in fact this is a fallacy. Why? Because
11 a corporation is a thing -- like a tree, a building, a
12 book -- and things cannot bear taxes. Only people can
13 bear taxes. The fact that we pass laws to make this
14 thing a "corporate citizen" does not alter its nature.
15 We might as well pass a law taxing the trees on McGill
16 campus. They would remain trees, and McGill's students
17 would pay the tax, because it would be paid from moneys
18 that would otherwise be applied for their benefit. So
19 it is with our corporations. The tax is in fact
20 borne by those who would otherwise have had the benefit
21 of this money.

22 Now, who are those people? Many studies have
23 been made without reaching definite conclusions on who
24 pays the corporation income tax. But there is clear
25 agreement that it is spread over four groups --
26 consumers, shareholders, employees and the public at
27 large. All the studies agree that the corporation
28 as such does not, and cannot, bear a tax; that tax
29 payments made from corporate bank accounts must in fact
30 be suffered by people.



1 It is an amazing thing that our people could
2 have been convinced that the corporations in fact bear
3 this tax. A good politician can sell ice to Eskimos,
4 and people will readily believe a speaker or writer
5 when he tells them something they want to hear. Most
6 people still believe that somehow or other they can get
7 something for nothing -- that they don't pay anything
8 for the vast social benefits financed so heavily from
9 the corporation income tax. "Let the great, wealthy
10 corporations pay for our old age pensions, our family
11 allowances, our unemployment insurance," people argue,
12 "they can afford it. They can also build our hospitals,
13 our universities, our art galleries, our concert halls."
14 The age-old urge to dump one's problems on someone else
15 is indeed potent, but the belief that corporations rather
16 than people can pay taxes and build our institutions is
17 nothing but self-delusion.

18 In fact, of course, the corporation income
19 tax bears hardest on those who can least afford it --
20 consumers and unemployed. In public debate last fall,
21 one of Canada's leading tax experts estimated that the
22 greatest part of the corporation income tax is recovered
23 through increased selling prices. He argued that, if
24 new capital is to be attracted, it must earn a desirable
25 return, and therefore that selling prices must be set
26 high enough to give the desired net return after taxes.
27 If he is right, the consumer pays the tax. But, because
28 it pushes up prices of Canadian goods, many of these lose
29 out to competitive foreign products. This in turn
30 reduces Canadian production, dropping our living



standards and causing unemployment. And so, as I just said, the tax is also suffered by the unemployed.

But the passing on of the tax in selling prices is only one of its bad features. Because business costs are necessarily deductible from income before tax, the net cost of any expense is less than fifty cents on the dollar. Thus much of the incentive to efficiency is lost. Businessmen, and especially those who own all or a large part of their companies, tend to live extravagantly because they can do so at small cost. They join clubs, hold many conferences at resort hotels -- and I go to many of them -- put domestic help on the company payroll, charge Florida vacations to the office, work in lavishly furnished offices and maintain company airplanes, yachts and other perquisites. Also, because the cost is only fifty cents on the dollar, and because of the steeply graduated personal income tax, salary rates have gone to astronomical heights in order to give reasonable net income to compensate for the great demands made on modern management.

All of these factors add to the cost of Canadian products, reducing their competitiveness, decreasing our production and employment in Canada. Furthermore, our selling prices must also cover the immense cost of complying with this complex tax. Of all our taxes, the corporation income tax is the most difficult to administer and to comply with. Even our small corporations must employ expert professional help to compile tax returns and to ensure that tax payments



1 are kept to a minimum, while our larger corporations
2 have entire departments of highly trained and
3 expensive staff apart altogether from the top-level
4 professional consultants they employ. A corporation
5 tax return is an extremely complex document, but most
6 of the work of our myriad tax experts is concerned with
7 devising ways to avoid or to minimize the tax. All
8 major management decisions must have regard to their
9 tax effect, and many vital decisions are seriously
10 distorted because of tax considerations. Thus
11 millions upon millions of man hours of our most capable
12 people must be spent every year on the futile and sterile
13 task of complying with or evading this tax. And, what
14 a waste, for these are the very men and women who are
15 among our finest brains and therefore our most
16 productive people, yet all their efforts produce nothing.
17 This may well be one of the greatest costs to Canada
18 of its corporation income tax.

19 Now, the obvious answer is "Well, you may be
20 right, but what about the revenue to meet government
21 expenditures". I have spelled out in the brief why
22 we do not in fact need the corporation income tax to
23 provide revenue. Provided

24 (a) we will levy on foreign shareholders
25 and on corporate shareholders taxes
26 equal to the amount they now bear
27 on their share of the income of
28 Canadian corporations;

29 (b) we will ensure the distribution of
30 all earnings to shareholders by



1 imposing a heavy tax on
2 undistributed profits; and
3 (c) we will eliminate the 20 per cent
4 dividend tax credit which would
5 no longer be needed,
6 government tax revenues would be as high, or even higher
7 than at present without the corporation income tax and
8 with no increase in rates of other taxes. And I
9 must emphasize that I do not suggest that we are trying
10 to pass on to somebody else a burden now being borne
11 by corporations. We should recognize that the taxes
12 are, in fact, being paid by our people and they should
13 be levied in such a way as to help the people. Such
14 a change could have a vast effect on the government's
15 financial position, not only bringing in important new
16 revenue but more importantly reducing the need for
17 government social handouts.

18 Strong as this case is in favour of eliminating
19 the corporation income tax, there is also a totally
20 different case which may ultimately prove to be much
21 more important.

22 If we have two outstanding long-term objectives
23 for Canada, they are surely to achieve the highest
24 possible living standards for our people and to ensure
25 the freedom of our people. No people can be free
26 unless they have economic freedom -- thus there is no
27 ultimate freedom except under free enterprise
28 capitalism.

29 Historically our economic system has operated
30 on the principle that wealth is generated by work, and

